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THE SOCIETY OF INCORPORATED ACCOUNTANTS

JUNE 1955



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Professional Notes

The Society's Annual General Meeting

A LARGE COMPLEMENT of members of the Society of Incorporated Accountants gathered together at the annual general meeting at Incorporated Accountants' Hall on May 17. On pages 206–208 of this issue we reproduce the address given at the meeting by the President, Mr. Bertram Nelson, F.S.A.A., J.P., and we comment upon it in our Editorial article on page 205. The main business at an extraordinary general meeting following the annual meeting was to consider the Council's recommended increases in the subscriptions of members. The increases, details of which appear on page 231, were agreed. Since 1929 there has been only one other increase in the subscriptions—one of 50 per cent. effected in 1947—and the dues that will now be payable by members have advanced in much smaller proportion than prices in general.

The finances of the Society have been barely balanced in the last two years and costs do not cease to rise. It is essential, moreover, that the Society should continue to keep in the van of progress as a professional accountancy body—but to do so means carrying the financial burden of developing its services and facilities for the members. Nor can Incorporated Accountants evade their increasing involvement as a corporate entity, as well as in their individual capacity, in the professional and business world, with the financial obligations which that involvement brings. Another resolution passed at the extraordinary general meeting increases the number of Council members to thirty-six plus serving Past Presidents, compared with thirty-eight in all heretofore; this is a step which by enabling more younger members to serve in the direction of the Society should further ensure its progress and vitality.

The Society's President and Vice-President

MR. BERTRAM NELSON, F.S.A.A., J.P., was re-elected President of the Society of Incorporated Accountants for a further year at a meeting of the Council held on May 26. We have pleasure in congratulating the President upon his re-election. Mr. Nelson has been indefatigable in pursuing his Presidential duties during the past year. He has travelled widely on the Society's work and as the chief representative of Incorporated Accountants at social functions; he has given a great number of charming and thoughtful public speeches; his helpful advice has been continuously and cheerfully at the service of the Council, its committees and the individual members of the Society. To be President of a body like the Society in this day and age involves a large commitment of energy and a heavy sacrifice of professional time; the members are indeed fortunate that Mr. Nelson can give up another year to serve in the exacting office to which they have called him.

We are also glad to announce that at the same meeting of the Council Sir Richard Yeabsley, C.B.E., F.C.A., F.S.A.A., was re-elected Vice-President and will thus give Mr. Nelson his valuable support for a second year.

The Duke of Edinburgh on "Taxmanship"

HIS ROYAL HIGHNESS the Duke of Edinburgh was the guest of honour at the seventy-fifth anniversary dinner of the Institute of Chartered Accountants in England and Wales held in Guildhall, London, last month. The Duke said that accountants had been employed for a long time as umpires in various matters, but nowhere quite so continuously as in what Mr. Stephen Potter might describe as "taxmanship." There were two sides to that game. On the one hand, there was the art of scoring off the Inland Revenue without actually cheating, and on the other there was the brutal business of extracting tax without actually using the thumb screw!

The Duke, who was proposing the toast of the Institute, paid

tribute to it for closely and jealously guarding the professional reputation for honesty, competence and integrity.

The President of the Institute, Mr. Donald V. House, F.C.A., who was in the chair, replied to the toast. The other speakers were the Lord High Chancellor of England (Viscount Kilmuir), the Lord Mayor of London (Alderman Sir Seymour Howard), Mr. George R. Freeman, F.C.A. (senior Past President of the Institute) and Mr. W. S. Carrington, F.C.A. (Vice-President of the Institute).

The Wilcox Case—

ONE OF THE effects of the recent case of *Regina v. Wilcox and Others* (reported on page 163 of our last issue) at the Central Criminal Court has been to proclaim once again the importance to the whole commercial life of this country of the absolute integrity of professional accountants.

In the dock were four men who were charged with conspiring together and with other persons unknown to cheat and defraud such persons as could be induced to part with their money in participating in transactions relating to the business of insurance carried on at Lloyd's. They were Alec Edward Martin Wilcox (underwriter and insurance broker), George Ross Hewitt (underwriter), Harold Arthur Simmonds (Chartered Accountant), and Harold Samuel Jupp Avery (book-keeper to Simmonds). Avery was found not guilty and was discharged. The others were sentenced to imprisonment: Wilcox to eight years, Simmonds to four years, and Hewitt to twelve months.

Said Sir Hartley Shawcross, Q.C., in his closing speech for the prosecution:

The vigilance and absolute independence and integrity, detachment and honesty of the people who are engaged in accounting work, at whatever level, is one of the main pillars supporting the whole edifice of commercial probity and honesty in this country. If that pillar collapses, the whole edifice is endangered, and the protection which the public is entitled to expect against dishonesty and breaches of the law disappears.

—And the Prosecution of Clerks

A CORRESPONDENT OF ACCOUNTANCY has drawn attention to what he describes as "a new feature" in the Wilcox case. "I think in no previous case," he writes, "where a principal has been charged, has the clerk been brought into it."

It will be appreciated that the fact that a person is merely in the position of a clerk gives him no special cloak of protection. As Mr. Justice Streatfeild said in the course of his summing-up in the *Wilcox* case:

A man cannot excuse himself from criminal responsibility on the grounds he had been ordered to do a certain thing by his master, or may consider he is bound by contract to obey his master, if he knows what he is told to do, or considers himself bound to do, is in fact a criminal offence. No contract can command a servant to commit a crime. It may be strong mitigation, but it is no excuse in law.

In the case of Avery, Simmonds in the witness-box put no blame on him at all. Avery himself said he had been with Simmonds's firm for twenty-six years. His first experience of insurance work was gained when he started working in 1938 on a motor insurance syndicate for Simmonds. He knew nothing about marine insurance until 1946, when the Wilcox syndicate commenced. He would not, in general, make decisions in matters of importance without reference to Simmonds. As the work grew he found it was becoming too much for him, and he spoke to Simmonds and his partner. He told them that he would prefer to remain in his old job, doing motor insurance, which he understood.

Dealing with the case of Avery in his summing up, the learned Judge said the jury would not forget in his favour that he impressed upon them that he never did anything important without advising his principal, Simmonds. As to the exchange cheque system concerning which evidence had been given in the course of the case (paying cheques out of one account on December 31 and into another on January 1), his Lordship continued:

You may think, on the one hand, these exchange cheque account transactions were a pretty transparent and

hollow thing. It was pretty obvious, if anybody applied his mind to it, what its object was. It was to conceal an indebtedness which should not have been there. It should have been dealt with by proper disclosure to Lloyd's. But you should consider whether you can say in Avery's case that, obvious though the truth was, it could not be said he deliberately blinded himself to it, because he reported to his principal and received in effect what was his principal's approval of it.

As already indicated, the jury acquitted Avery.

Cheque Endorsement

THE COMMITTEE ON the endorsement of cheques, the appointment of which was recorded in our April issue (page 126), consists of Mr. A. A. Mocatta, Q.C. (Chairman), with Lord Chorley (formerly Sir Ernest Cassel Professor of Commercial and Industrial Law in the University of London), Mr. A. H. Ensor (director of *Lloyd's Bank* and a past President of the *Institute of Bankers*), Mr. E. J. Partridge (secretary and director of *Imperial Tobacco Co. Ltd.*), and Mr. W. K. M. Slimmings, C.A. (a partner in *Messrs. Thomson McLintock and Co., Chartered Accountants*).

The terms of reference are:

To consider (a) whether, and if so in what circumstances and to what extent, it is desirable to reduce the need for the endorsement of order cheques and similar instruments received for collection by a bank; (b) what, if any, amendment of the Bills of Exchange Act, 1882, or other statutory provision should be made for this purpose; and to report.

The Irish Budget

IN INTRODUCING HIS Budget statement Mr. Sweetman, the new Minister for Finance in the Irish Republic, said that exports of goods were higher and imports were lower in 1954 than in the previous year, whilst invisible exports were well maintained. Receipts from abroad virtually balanced external payments.

For 1955, there was an estimated current deficiency of £3,850,000. Borrowings of £31 million would be necessary on capital account for housing, schools, hospital buildings, land reclamation and drainage, elec-

tricity and turf development, fisheries, forestry and transport. There would also be advances to the *Electricity Supply Board* and to *Irish Shipping Ltd.* for new tonnage. The Minister stressed the necessity for substantial savings within the State to meet the proposed capital commitments.

Mr. Sweetman proposed an increase of 2s. 6d. per week in old age, widows' and certain other pensions. He made the following proposals for tax reliefs:

1. An increase of 10s. to 40s. per barrel in the rebate of excise duty allowed to breweries on the first 5,000 barrels brewed in any year. This relief is designed to assist small breweries.
2. Voluntary insurance premiums covering the cost of medical care and attention to be allowed as a deduction in computing income tax liability.
3. The child allowance for income tax purposes to be increased to £100 from £85 for each child. Under this concession, a married man with one child would be exempt from income tax on earnings up to £533 per annum, with two children up to £666 per annum, and with three children up to £800 per annum.

Other provisions of the Budget would extend to future stock issues of the Dublin Corporation and other local authorities the privilege of non-deduction of tax from dividends, exempt from taxation the profits of a trade carried on by a charity as a primary purpose of the charity and reduce the road tax on certain tractors used by farmers. The Minister also proposed an amendment to the law to provide for the aggregation of some assurance policies for estate duty.

Referring to the taxation of industry, Mr. Sweetman said he would await the report of the Industrial Taxation Committee, which he understood would soon be available.

Auditors' Certificates in Physical Terms

IN HIS ADDRESS at the annual general meeting of the Institute of Chartered Accountants in England and Wales, Mr. Donald V. House, F.C.A., the President (who has been re-elected,

Mr. W. S. Carrington, F.C.A., being Vice-President for another year), referred to the growing demand by trade associations, Government Departments and other bodies for accountants' certificates in physical terms. The form of many of the certificates was, said Mr. House, drawn up in such a way that an accountant should not sign them without qualification. The unsatisfactory certificates had one or both of two main defects—they required the auditor to certify matters entirely outside his province, and they required him to certify that various statements were correct whereas he could not do more than express his opinion on the underlying records and the accuracy with which the statements had been prepared from them. By way of illustration, said Mr. House, he would give a few examples:

There is an organisation which expects the auditors to certify that the tonnages and brands of various cement products have been checked by them and that none of the tonnages included in the claim was composed of special commodities such as white, coloured, aluminous, cold-weather, or water-repellent cements. . . . One Government Department expects an auditor to certify that a particular statement is a true and correct record of first-quality hen eggs graded and packed day by day during a specified period.

The warning issued by the President of the Institute is a salutary one and, in particular, auditors must certainly be prepared to amend the wording of a certificate if the records and statistics from which they have been working in making their checks are insufficient, or inappropriate, for them to be able to certify in the terms laid down by the body calling for the certificate. As Mr. House said, altered certificates are seldom questioned, even if the alterations are of a substantial nature.

Diamond Jubilee of Netherlands Institute

THE ORGANISED ACCOUNTANCY profession in Holland is sixty years old. To mark its diamond jubilee, the Netherlands Institute of Accountants held celebrations in Scheveningen last month, under the chairmanship of

its President, Mr. R. Besançon. There was a jubilee dinner and a concert, and papers were read at business sessions by Mr. J. Kraayenhof on *The Accountant's Profession in the Netherlands after Sixty Years* and by Dr. H. M. Hirschfeld on *Structural Changes in the Private Formation of Capital*.

The celebrations, a brilliant occasion, were attended by representatives of accountancy bodies from other countries, as well as by a very large number of members of the Netherlands Institute. Mr. Bertram Nelson, F.S.A.A., the President, and Mr. I. A. F. Craig, the Secretary, attended on behalf of the Society of Incorporated Accountants.

The Netherlands Institute has 1,140 members, of whom some 60 per cent. are in practice, 20 per cent. in industry and 14 per cent. in public service. There are more than 3,000 student members.

It was apparent at Scheveningen in what esteem the Netherlands Institute is held, both in Holland and elsewhere. The jubilee gatherings were a happy augury for the International Congress of Accounting to be held in Amsterdam in 1957 (see ACCOUNTANCY for last month, page 164).

Pre-Examination Courses for Students

AN ENJOYABLE TIME, as well as a profitable one, was experienced by the 210 students who attended the pre-examination courses held by the Incorporated Accountants' Students' Society of London at Ashridge College, Berkhamsted, from April 20 to 25.

Separate courses were provided for the Intermediate and for the two parts of the Final Examination. Lectures were given by fourteen lecturers. Ample facilities were available for sport and recreation, and full advantage was taken of them.

About one-third of the students came to Ashridge from outside the area of the London Students' Society. Other provincial students attended the successful courses arranged in the same month by the Manchester and Bradford District Societies, reports of which appear on pages 235-236 of this issue.

Another Sample Census of Production

IT WAS DECIDED some time ago that the census of production to be taken next year for the year 1955 would be a simplified one, arranged on a sample basis. The same decision has now been reached for the census to be taken in 1957 for the year 1956. A full census is being taken this year in respect of 1954. The decision to take a second sample census in 1957 is therefore in accordance with the recommendation of the Verdon Smith Committee (see ACCOUNTANCY, December, 1954, page 445) that full censuses should be taken triennially.

The questions in the sample censuses to be taken in 1956 and 1957 will be identical and the trades covered in each census will be mining and quarrying; manufacturing; building and contracting; and gas, electricity and water. A stratified sample of establishments in each of these trades will be selected and only those so chosen will be asked to make returns. Those to be included will be advised in the autumn of this year and will be sent an advance copy of the form. Firms with fewer than eleven employees (not 25 employees, as recommended by the Verdon Smith Committee) will normally be required to state only the nature of their business and the number of employees.

Meetings of the Association

IN HIS PRESIDENTIAL ADDRESS at the annual general meeting of the Association of Certified and Corporate Accountants, Mr. W. Macfarlane Gray, F.A.C.C.A. (who has been re-elected President, with Mr. A. C. S. Meynell, F.A.C.C.A., as Vice-President) remarked upon the growing influx of accountants into industry and commerce, including the nationalised industries. He thought that the flow resulted partly from structural changes in the shape of the economy itself but that a more important cause was "a fundamental broadening of the function potential of the accountant." The accountancy profession had, quite properly, done much to foster and to satisfy this broadening. The movement towards

industry and commerce had produced staffing difficulties for practising accountants and it was "essential that the present flow of new entrants to all the recognised bodies should be maintained and enlarged."

While Mr. Gray considered the tax incentives introduced in the Budget as encouraging, he threw some doubts upon the policy of releasing additional purchasing power when inflationary tendencies were already active. For the Chancellor's objectives to be attained, the country must realise that full employment brought, not only advantages, but also grave responsibilities—in particular, responsibilities for avoiding strikes, unrest and ever-increasing demands for higher pay.

The Association had a domestic problem: Mr. Gray said that a move to new premises was considered essential by the Council of the Association.

The annual conference of the Association is to be held this year in Edinburgh, from September 30 to October 4. There will be a President's Reception, business sessions at which papers will be read, a banquet and ball, and other social events.

Gift Cheque Demand

WHILE THE *Midland Bank* seems rather loth to make large claims for its new gift cheque scheme, mentioned on page 164 of our last issue, it was able to report favourably after one month's trial, during much of which the scheme was denied full publicity owing to the non-publication of the national newspapers.

Apart from normal advertising, the cheques have appeared on television and have had the distinction of a cartoon in the *New Zealand Herald* entitled "Funny Money." There are no figures of actual demand so far, but there was an immediate if modest enquiry from Scotland, with the result that the cheques are now to be had by any member of the public from the *Clydesdale and North of Scotland Bank*, or from the *Belfast Banking Company* in Northern Ireland. This means that there are 2,540 bank branches prepared to supply this new competitor with other forms of gift.

Gift cheques have been drawn for sums of less than £1 and as much as 1,000 guineas. Apart from such serious matters as presents on retirement, some wags have suggested that they represent a convenient means of paying the excessive taxes levied by Mr. Butler. It has also been pointed out that for those who have to make substantial payments and who have no banking account they are a cheap alternative to money orders. These frivolities apart, there does seem to be a very fair chance that they will fill a gap in the machinery for making gifts with a certain dignity and elegance.

The Public Trustee Office

WE NOTED IN our issue of May, 1954, page 166, the appointment of a Committee of Inquiry, under the chairmanship of Sir Maurice Holmes, to advise upon changes in the functions or methods of business of the Public Trustee, the organisation of his office and the financial conditions in which he operates.

In response to an invitation from the secretary of the committee, a submission in the following terms has been sent on behalf of the Council of the Society of Incorporated Accountants:

The replies which we have received from our members in response to a request for observations on the working of the Public Trustee's Office indicate that there is a high opinion of the way in which the duties of its officers are conducted. In particular, there is a reference to the cordial nature of dealings with his office.

The only complaint made as to the work of the office is of slowness but it is realised that this criticism is often unfairly levelled against corporate and, indeed, all trustees.

Others have pointed out that while there is provision in the form of application for the nomination of bankers, stockbrokers and solicitors, there is no reference to professional accountants. It is submitted that even though difficulties might be involved the facility for nominating an applicant's selected professional accountant or firm might well result in an increased use of the services of the office.

The charges made by the office are considered by some to be high and

particular reference has been made to the management fee which is payable in addition to broker's commission on changes of investments. In general, the principle "that the trust is administered at cost price" may not always work advantageously as compared with firm arrangements made with other corporate trustees based either on a specially agreed scale or on the scale operating at the date of death. In this connection it is noted that in 1948 the Public Trustee's withdrawal fees were doubled in order to cover increasing costs. Such an increase applies to trusts already accepted as well as new trusts irrespective of any special arrangement which may have been made.

The Council is aware that the form of accounts presented by the Public Trustee differs considerably from that in general use and feels that this is a matter worthy of critical examination in which the Society would be pleased to assist.

Hire Purchase

THE NATURE OF a hire purchase transaction and methods of administering the system were discussed by Mr. R. T. Evans, M.A., F.C.I.S., secretary of *Mutual Finance, Ltd.*, in a paper read at the annual conference of the Chartered Institute of Secretaries held at Folkestone last month. The chairman at the session was Sir Frederick Alban, C.B.E., F.C.I.S., F.S.A.A., J.P.

In a concluding section of the paper Mr. Evans dealt with the social and economic aspects of hire purchase. In any society, he said, there would be improvident persons; but the fact that losses by default averaged only a fraction of one per cent. of hire-purchase turnover indicated that the number of hirers who committed themselves beyond their means was negligible. Responsible finance houses accepted the need for control of minimum deposits and maximum periods of payment, but did not agree that an over-all restriction of bank credit was needed in addition. The study of hire purchase from an economic aspect was handicapped by the lack of statistics.

The "imaginary social evils" of hire purchase are the subject also of a booklet, *Hire Purchase—The Facts*,

issued by *United Dominions Trust Ltd.*, which has thirty-five years' experience of financing transactions amounting to millions of pounds. The booklet strongly affirms that hirers have a proper sense of responsibility and the firm intention to see their contracts through. Abuses are possible, but there is no need to deal with any but reputable traders. Hire purchase of machinery and equipment is a valuable facility to business concerns which owing to the heavy burden of taxation have not been able to build up sufficient reserves to buy for cash.

Checking Contractors' Accounts

SOME CHIEF FINANCIAL officers to local authorities encounter opposition to their attempts to check the final accounts submitted by contractors. Certain technical officers feel that such a check reflects adversely upon them. But the technical staff may easily (and excusably) miss errors which the finance staff would detect. The financial check may even obviate a surcharge by the district auditor on the members of the committee passing the account and on the chief of the spending department, as well as on the chief financial officer.

In the well-known case of *A.G. v. De Winton* [1906] 2 Ch. 106, the principle was established that the borough treasurer stood in a fiduciary relationship with the burgesses, and could not, in support of a wrongful act, plead the orders of council. It would certainly place the chief financial officer in an awkward position if he had not been allowed to check a contractor's account before payment and a ratepayer objected that the payment was wrongful. It is quite clear that the Ministry of Housing and Local Government intends the chief financial officer to exercise independent control over accounts for payment.

In the First Report of the Local Government Manpower Committee (1950) it was recommended that the chief financial officer should be given an opportunity to review contract settlements, either before the technical officer (or professional adviser) gave his final certificate or

afterwards. The sub-committee on this particular question had expressly recommended that the chief financial officer should review all proposed contract settlements before the technical officer or adviser gave his final certificate.

Chief financial officers would do well to persuade their councils to place upon them, by way of a standing order or financial regulation, a duty to check the accounts for payment.

The Accountant Annual Awards

AS WE GO to press the names have been announced of the winning companies for 1955 of *The Accountant* annual awards for reports and accounts of public companies. These are *Ford Motor Co. Ltd.* and *Unilever Ltd.* The two awards are of equal merit, and each takes the form of a pair of hand-made silver wall sconces. The presentations will be made this month by the Lord Mayor of London, Sir Seymour Howard, at the Mansion House.

It is intended that in future years one of the awards shall be made to a smaller company producing a simpler set of accounts.

Mr. Bertram Nelson, F.S.A.A., J.P., the President of the Society of Incorporated Accountants, is a member of the panel of judges.

Shorter Notes

Quarterly Reports

Shell is to show that a world-wide British business can issue quarterly reports, *pace* the *Institute of Directors* which at the beginning of the year criticised Sir John Braithwaite for pleading for "interim progress reports." The President of the New York Stock Exchange said last month that unwillingness to publish quarterly reports was the main obstacle to the quoting of the British securities on the exchange.

Statistics of Investment

The Government has disclosed that it intends to collect estimates of future capital investment planned by industry. There is indeed a conspicuous gap in the

national statistics on this important (Lord Keynes would have said "all-important") determinant of the state of the economy—see *ACCOUNTANCY* for January last (page 33). There is no need for the necessary inquiries of business to be elaborate.

New Office Holders in the Irish Institute

Mr. Frank Cleland, F.C.A., partner in Wilson, Hennessey and Crawford, Chartered Accountants, of Belfast, has been elected President of the Institute of Chartered Accountants of Ireland for the two years 1955 to 1957. Mr. G. F. Klinger, F.C.A., partner in Stokes Brothers and Pim, Chartered Accountants, of Dublin, is the new Vice-President. Mr. William Stuart Orr, B.A., LL.B., A.C.A., succeeds Mr. W. E. Crawford, F.C.A., as Secretary of the Institute. We wish Mr. Orr every success in his new post.

Business Efficiency Exhibition

As stated in our April issue (page 128), the forty-second Business Efficiency Exhibition will be held at Olympia, London, W.14, from June 6 to 16. The hours of opening are 10 a.m. to 8 p.m. Friday, June 10, will be a special day for visits by Incorporated Accountants, who are invited to obtain their tickets from Mr. C. Evan-Jones, Deputy Secretary of the Society, at Incorporated Accountants' Hall.

Consolidation of Estate Duty

At the annual general meeting of the *Institute of Taxation*, Mr. C. Gordon Howard, B.A., the President, said that forty Acts had been consolidated in the Income Tax Act of 1952, and it was time that estate duty was similarly treated. Estate duty law was a tangle of legal verbiage, embodied in an equally formidable number of Acts.

Accountants' Christian Fellowship

Prayer meetings have been arranged at St. Mary Woolnoth, Lombard Street, London, E.C.2., as follows: June 7, July 4, August 2, September 5, October 4, November 7, December 6. The meetings will be held at 6 p.m., except that as an experiment the one on July 4 will be at 12.15 p.m. for the convenience of those who cannot attend an evening meeting.

Accountants and the I.C.F.C.

Accountants are responsible for a large share of the business reaching the

Industrial and Commercial Finance Corporation, whose report we review on page 224. We are authorised by the Corporation to say that out of 5,029 applications for finance received to the end of March last, 1,212 or 25 per cent. were from accountants.

Market Research Abroad

How can Market Research help towards Profitable Export Marketing? is the subject of an essay competition organised by the *Royal Society of Arts* and the *British Export Trade Research Organisation*. Competitors must be under 35 at the closing date and must be working or intending to work for a British company or organisation either in the United Kingdom or overseas. Essays should be between 2,000 and 3,000 words, and must be submitted by September 1, 1955. The prize will be £500 to be used in the study of marketing conditions abroad. Further details can be obtained from the Royal Society of Arts, 6-8 John Adam Street, Adelphi, London, W.C.2.

Study-Visit to Canada

A Canadian study-visit is being organised from mid-September to mid-November, to give persons from the United Kingdom engaged in industrial, commercial, professional, academic and public work the opportunity of meeting their counterparts in Ontario and Quebec and perhaps further west. The visit is organised by the *Conservative Commonwealth Council*. It is non-political. Further information is obtainable from the organiser, Mr. R. D. Milne, M.A., Conservative Commonwealth Council, Abbey House, Victoria Street, London, S.W.1.

Aid to Owner-Occupiers

The Chief Registrar of Friendly Societies states, from figures voluntarily supplied by large building societies, that 85 per cent. of all advances, representing 92 per cent. of the total advanced, are to owner-occupiers of houses. The building societies helped in the purchase of some two-thirds of the 90,000 new houses privately built last year.

Accounting Congress in Brussels

The second congress of the *Union Européenne des Experts Comptables Economiques et Financiers* will be held in Brussels from September 12 to 16. Details are obtainable from: The Secretariat to the Brussels Congress, 1955, 5 due des Israélites, Antwerp, Belgium.

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EDITORIAL

Where Do We Stand?

ARE accountants keeping pace with the changes in their environment? Is the profession lagging or leading? These questions posed themselves as we listened to the address of the Society's President, Mr. Bertram Nelson, at the annual general meeting last month. Mr. Nelson was rightfully not silent on the progress that the accountancy profession has made, and is still making, but parts of his speech seemed to put us on warning, to challenge the members to think about where they stand, and where the profession as a whole stands, in this dynamic world. The challenge calls for a response in a spirit of self-examination and self-criticism. We may here content ourselves with indicating some of the points that need looking into, points that make us feel that there is no place for complacency.

There seem to be three planes on which to consider whether accountancy has advanced in step with the world about it. There is the plane of the individual accountant—whether he is making a due contribution to the economy in which he is placed. There is the plane of techniques—whether accountancy as a science (or an art?) is developing fast enough. There is the plane of the profession at large—whether its organisation is all that is required in the modern world.

Mr. Nelson pointed to the marked growth in the size of the average business unit in this country and contrasted with it the relative stability in the size of the typical firm of practising accountants. It would certainly be a mistake to take efficiency as varying directly with size, and it is a defensible proposition that a firm of accountants should not be so large that the partners cannot be in personal touch with the clients. But there seem to be weighty advantages in an increase in the average size of the practising firm. Mr. Nelson looked for increased specialisation—and one of the most important of these advantages is the very possibility of greater specialisation, both within the firm itself and among different firms. As the accountant's work becomes more and more complex, under the pressure of tax and other legislation and as the economy itself grows in complexity, both partners and their clerks, it seems to us, must increasingly specialise if they are to be of maximum efficiency. And one looks to much more consultation by the "general practitioner" of the "specialist." It is perhaps even true to say that a developed system of specialist consultancy is the mark of a mature profession. Certainly, it is time there was a Harley Street of accountancy.

Accountants in practice may retort that it is all very well to say that the average accounting firm should be larger, but there is a chronic and worsening shortage of accounting staff, which is forcing many firms willy-nilly to become smaller, not larger. A partial answer to this objection is to point out that amalgamations of firms would increase the average size. A further answer is to

remark that in a free market a shortage of supply can be corrected only by a rise in price. If, despite salary increases in recent years, accounting staff is in excess demand, it must be because salaries are not yet high enough. If practitioners adduce the lowness of accounting fees as a factor preventing salary increases, it may follow that fees also are too low. It does indeed seem that often they are too low and could be increased if the accountant realistically appraised his own work. Often, however, it is a question not of increasing the fee for the same job, but doing a different and bigger job which would warrant a larger fee. In his address the President pointed to some of the ways in which the accountant could do this different and bigger job.

It is important that accounts should be used not only for taxation purposes but as a basis for policy decisions. It is important that we should make our accounting forms much more intelligible to laymen. It is important that we should help our clients to find their accounts more interesting and that we should devise methods for keeping the accounting records of small businesses at lower cost.

Here an advancement in the efficiency of the individual accountancy firm shades into an improvement in accounting techniques. In recent years there has been much research work done in accountancy, but to discern where it has been applied in practice requires the eyesight that comes only with blind faith. Mechanisation in accounting has so far gone only a little way along the road which it will surely have to travel in the next few years. Mr. Nelson referred to the opportunities which electronic accounting is opening up for the profession, but if one honestly answers the question "How many accountants are taking an active interest in electronic accounting?" the answer is hardly an encouraging one.

On the plane of the organisation of the profession itself our heart-searching is impelled in three directions by the Presidential address. First, the proliferation of specialist accounting bodies and diplomas is to be deplored, as we have deplored it on other occasions. In discussing electronic accounting, Mr. Nelson said that if the profession is interested, there should be no necessity for setting up a new profession. It would, indeed, be calamitous if such an essential segment of the accounting *expertise* were to be allowed, by default of the accounting profession itself, to be organised outside of the accountancy bodies. And they must also be perpetually alive to the danger of other segments of their *expertise* being broken off as segments have been broken off in the past. Second, all the time the registration and co-ordination of the profession is a goal and not an actuality, the profession as a whole has no good cause to be very proud of itself. Third, professional education is not wide enough and not well organised; it is imperative that it should be improved.

Accountancy in a Dynamic Economy

The address of the President of the Society of Incorporated Accountants, Mr. Bertram Nelson, delivered at the annual general meeting of the Society on May 17.

The Accountant and his Environment

As we go about the daily affairs of our clients and colleagues, three areas of turbulence may be noticed:

1. *The changing pattern of British industry and commerce*, through the formation of large units, through mergers, nationalisation and grouping.
2. *The distortion of business policy* which arises through taxation and restrictions. A business decision is often taken mainly in relation to taxation consequences; the incidence of purchase tax can completely change production programmes; restrictive practices and international barriers alter the whole pattern of trade. Profits vary not in ratio to the business ability but in relation to these factors and to inflation. While virtue and reward are never directly equated, the balance between effort and effect could be approved.
3. *Technological developments* which are notably accelerating.

How is the accountant affected? What contributions can he make in this changing environment?

Large Scale Industry and Commerce

In a recent book on *Retail Distribution*, Dr. J. B. Jeffreys gives some figures of the growth of multiple shop firms, owning 25 branches or more. In 1900, such firms had 9,251 shops: today, they have over 40,000. The increasing powers of the multiple shops, the chain stores and the departmental stores is clearly seen in every shopping centre in the country.

Proportion of Total Retail Sales undertaken by the Different Types of Retailers

Type of Organisation	1900		1935		1950	
	Per cent.					
Co-operative societies	6.0—7.0	8.5—10.5	10.0—12.0			
Departmental stores ..	1.0—2.0	4.0—5.5	4.5—6.0			
Multiple shop retailers	3.0—4.5	14.0—17.0	18.0—20.5			
Other retailers (by difference) ..	86.5—90.0	67.0—73.5	61.5—67.5			

Some trades have been specially affected by this change of pattern. In men's and boys' wear, for example, the independent retailer was in 1900 doing nearly 95 per cent. of total sales: today, he is doing only about 50 per cent. In this period of fifty years, sales by multiple shops have increased eleven-fold, by departmental stores six-fold and by co-operative societies four-fold.

The same kind of transition has been taking place in industry. We are living in the days of large-scale industries, with new problems of management, problems which cannot be solved merely by intensifying methods appropriate to smaller organisations.

It might have been expected that such major changes in the pattern of commerce might have already changed the

pattern of the accountancy profession, so that there was little scope for the single practitioner or for the medium-sized firm. This has not happened. While the larger firms have grown fast, to the advantage of the profession, and while there have been many amalgamations, the number of sole practitioners has continued to increase. In London, for example, there has been an increase of about 45 per cent. since 1939, taking the Institute and the Society together. The number of medium-sized firms (with two to ten partners) has remained substantially unchanged in this period. There are no indications yet of any lowering in the demand for the services, the personal services, of the small and medium-sized firm.

The Future of Small Businesses

The increase in the number of large business units does not necessarily involve the decay of small businesses. Continued growth from small beginnings is essential for the health of this country, and our destiny probably lies in the direction of a mixed economy. When small businesses decline, the decay may be due to factors not related to business efficiency or to consumer service. Much of the power of the large unit comes from command of capital and from large-scale buying. In the United States, experiments have recently been in progress whereby a number of independent retailers co-operate in "group wholesaling" (i.e. in a common buying office), which has been found to give the independent trader many of the advantages which the multiple stores get from large-scale buying. It is clear that there could be considerable cost reductions which would help the independent trader. These cost reductions could often be based on accounting inquiries, such as have been developed in the U.S.A. under the inexplicable title of "Expense Centre Accounting".

The independent trader suffers through inability to employ on his staff experts in every field—he must be his own expert—but he will gain much from occasional advice from specialists. One of the great needs of British industry and commerce at present is to bring up the inefficient business to the level of the efficient. The accountant, with his wide business experience, may have an important role to fill in spreading information and techniques. It is important that accounts should be used not only for taxation purposes but as a basis for policy decisions. It is important that we should make our accounting forms much more intelligible to laymen. It is important that we should help our clients to find their accounts more interesting and that we should devise methods for keeping the accounting records of small businesses at lower cost than at present.

It is the experience of many accountants that a practice

based solely on audit work would be unable to pay staff salaries adequate to recruit and retain the experienced staff necessary. It is important that the profession should develop its own techniques so that we can do our work efficiently and give practical service to our clients.

The Distortion of Industry

The writer of *Ecclesiastes* noted that "Sentence against an evil deed is not executed speedily." The ill-effects of a decision by a Government or a Board of directors or a trade union are not seen promptly. Accountants are in a special position to detect tendencies, often at a time when remedial action may be taken. "All the progress of mankind to date results from the making of careful measurements." In a complex civilisation where results are not easily traced back to their source, the profession has a special responsibility.

We have many opportunities of seeing how the affairs of our clients may be distorted by accidents of taxation. There is urgent need for the reform of corporate taxation, for the reform of purchase tax and estate duty, and for warfare on barriers and restrictions. When distributable profits are substantially affected by factors such as these, the relative profitability of industries and commercial units may be seriously affected. An industry or business which ought, in the national interest, to be growing fast, may not be showing sufficient distributable profits to attract new capital or to build up development resources through retained profits. The pattern of British industry may acquire quite the wrong shape: the fundamental industries which ought to be expanding may be held back and ephemeral industries, which do no good to the national interest, may flourish.

When the extent and direction of capital expenditure are being considered, accurate information is essential. It is satisfactory that the Government has, in recent years, adopted the technique of the profession—the double entry system—for the national accounts, as indicated, for example, by *Estimates of National Income and Expenditure* (Cmd. 9423). It is to be hoped that sometime the Government will go further and realise the deficiencies of the cash basis method—that it will endeavour to draw up a true income and expenditure account, subject to such variations as are necessary to maintain the cash budget. It is to be hoped that the censuses of production and distribution will become more realistic, with results published at a time when they can still be used. The recurrence of crises indicates how narrow is the margin in the national economy between success and failure and how important it is that accurate information should be available.

The main threat to our prosperity is still waste of time. The accountancy profession has work to do in detecting where this waste is occurring.

Technological Progress

The astonishing rate of technological progress affects the accountancy profession closely in one field—that of electronic accounting. It is important that the profession

should not lose the opportunities which will come in the next few years. Electronic accounting is no more than a new way of handling figures. It does not change the essential principles of accountancy and there is no reason why, if the profession is interested, there should be any necessity for setting up a new profession. We shall not, however, be able to keep pace with technological progress generally unless we keep in touch with other professions and with oversea developments.

Increasing specialisation in the profession is inevitable and should be based on a broad, general education and on the development of post-graduate work, which our Research Committee under Professor Bray is so successfully undertaking. Specialisation may express itself in an increasing number of specialist consultants (on the analogy of the medical profession) or in the admission into practising partnerships of members with experience of industry. It would be excellent if the flow from professional practice into industry, which has been so marked a feature of the past thirty years, could in the next thirty years be matched by a return flow.

Educational Methods

Our examination syllabus, while maintaining the basis of a broad liberal education, is developing amidst these changing needs so that more emphasis is placed on the interpretation and the use of accounts. Our traditional educational methods have great advantages. They are convenient and they are practical. Articled clerks and bye-law candidates who are prepared to think are given the best incentive of all—increased responsibility in their daily work.

These advantages must be retained, but education methods have changed greatly in recent years and it may be that the time has come for the Society to take greater responsibility for education as well as for examinations. Professional education, which should be exciting and interesting, is often dull. Each year, our entry of articled clerks and bye-law candidates exceeds 1,000, but fewer than 500 pass their Final Examination. That so many fail to qualify is an indication of the high standards of our examinations, which should not be surpassed by any accountancy examinations in the world. It may be, however, that the profession is losing the services of good candidates through deficiencies in our educational methods. Sir James Mountford recently reviewed failures in the University of Liverpool—my own University—and came to the conclusion that four steps were necessary—

A constant endeavour must be made to improve methods of recruitment and selection;

Every student should be in contact with someone who takes a positive and active interest in his welfare and to whom he can freely go for help and advice in every kind of personal difficulty;

The curriculum must not be overloaded;

Teaching methods, which may be impeccable as regards content, are useless if they disregard teaching techniques.

We may have something to learn from these suggestions.

The Basis of Professional Education

There may be need for some integration of our examination subjects, some re-writing of our text books, some further emphasis on the training of judgment and the formation of style. We may need to balance our curriculum in relation to a much wider purpose than is at present recognised. Dr. Eric Ashby has recently written as follows in relation to professional education generally, the words relating to accountancy being my own insertions—

When liberal education is served as a sort of separate dish beside the professional courses, there is a pervasive futility about it which students do not fail to notice. This futility might be avoided if we took the plunge and made the professional school the core of modern humanism. By this I mean teaching *accountancy* as though it were the central core of knowledge (as, indeed, it is for each specialist in it), intimately related (as, indeed, all professional knowledge is) to history, economics, social philosophy and the rest. An *accountancy* student, taught from the beginning to regard his subject as intimately related to *law* and to economics and so to international affairs, will suddenly realise the relevance of a liberal education. He will see the relevance of talking to other specialists if he can do it from the point of reference of his own specialism. Reflection on the social and moral consequences of his subject would then become an integral part of his professional course.

Education is incomplete unless it brings with it a fresh sense of wonder and awareness that we are standing among great mysteries.

The Society

I cannot quite emulate Mr. Witty in his knowledge of every President of the Society since 1885, but my family has been closely associated with the work of the Society since its earliest days.

In the words of the explanatory memorandum issued with the notice convening the extraordinary meeting to be held later today (words which I did not myself devise), "the Society, now in its seventy-first year, has attained considerable status as an independent, progressive and energising force throughout the whole of the accountancy world." I believe that the Society and its members are well-equipped to meet the changing needs which I have surveyed. Our Research Committee is doing work which is without parallel and which has great promise for the future. My confidence in that future has increased week by week as I have visited Branches and District Societies, to whose officers and committees all of us owe so much. May I here record also my warmest thanks to the Vice-President, Sir Richard Yeabsley, and my colleagues on the Council, to Mr. Craig, Mr. Evan-Jones and the members of the Society's staff.

My confidence is strengthened by the happy relations which exist between the accountancy bodies in this country and abroad. These relations have never been more satisfactory, and I am grateful to those kindred accountancy bodies for much hospitality and kindness. The profession has a great future. I do not think, however, that we shall achieve success until we attain the

long-hoped for goal of registration. My belief is that, with the growing unity of the profession and the growing public realisation of the dangers of unqualified practice, progress towards co-ordination will be accelerated. Successive Presidents of the Society have indicated how firmly the Council feels on this matter. In the words of my immediate predecessor, "The Council is convinced that the time for registration is long overdue. The Council will spare no effort in playing its part in trying to resolve present difficulties and secure the settlement which we all so much desire."

As we meet today for our seventieth annual meeting our hope is that the Society will continue to grow in wisdom, in kindness and in fame.

Accounting Education —A Trial Balance

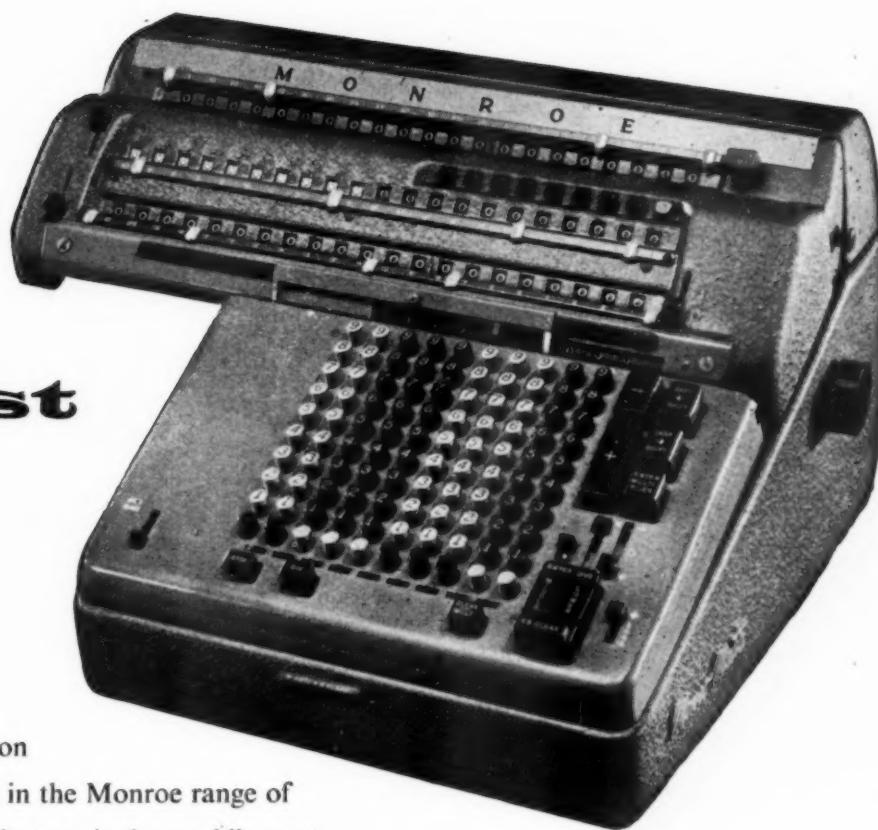
By NICHOLAS A. H. STACEY

(Member of the American Accounting Association)

IF THE EDUCATION of the professional accountant is to be adapted so as to fit him for the demands of the day, periodically new subjects must be introduced into his studies and old ones must be jettisoned. Difficult problems will emerge, but they must be faced if the newly-qualified man is to find himself at home in a changing world. Reappraisal of the curriculum from time to time is imperative: it is a task which is as important, if not more important, in the profession of accountancy as in most fields of semi-technical study. The reason is simple. Accounting is a severely pragmatic science, demanding a great deal of technical skill and assiduity. Herein lies its greatest danger. For to be technically proficient is not enough; it is equally important to study those subjects which develop the imagination. Sir Herbert Read has observed of much of the education of today, that it conforms to "the spirit and needs of an industrial age (which has) created an educational system that is predominantly factual, scientific and conceptual: the education of the imagination, by creative activities, is completely subordinate, and at many stages of education entirely neglected." (*The Times*, November 12, 1954.)

Accounting studies do not lack comprehensiveness, but they seem to be based on the assumption that accounting as an art is the standard bearer of progress. Yet no professional study can be an end in itself. The diagnosis on accounting education must be similar to that on

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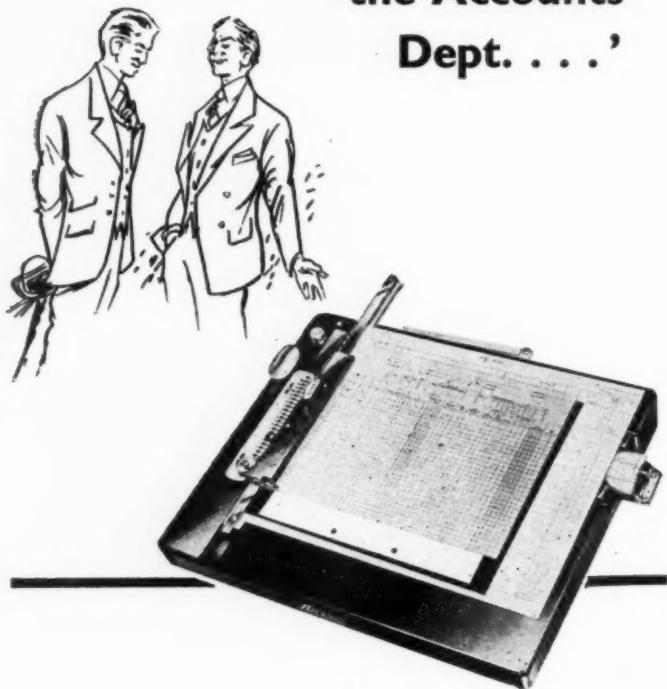
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TAXATION

technological education—it lacks an adequate training in the humanities. And in an age like our own, when the primary need is not for more specialisation in professional education but for sheer elucidation, courses in the humanities should be administered more liberally. Gilbert Wakefield, the heretical cleric of the 18th century and a disciple of Rousseau, summed-up the task of education thus: "The greatest service of tuition to any youth is to teach him the exercise of his own powers, to conduct him to the limits of his knowledge by that gradual process in which he sees and secures his own way, and rejoices in the consciousness of his own faculties and his own proficiency."* Clearly, present day professional education does not often meet these requirements: its curriculum is overcrowded with specialised study.

Nonetheless, the present-day curriculum of the major accounting bodies is to some extent in line with the requirements of the day. It has been modified a number of times, new subjects have been introduced and new standards have been set. Some bodies have introduced new or additional subjects in the curriculum with greater alacrity than others. But—let this be borne in mind—the changes in the accounting syllabus have always come about piecemeal. The moment is propitious for latter-day accountants systematically to re-cast their study courses, so that they may be improved by the introduction of more "humanities," integrated with one another and streamlined. When this task is undertaken, three major factors should be brought into account. The first is the need for the introduction of liberal "arts" subjects. The two others are the necessity to ensure the growing popularity of the accountants' university courses, and to pay proper regard to the gradual extension of the school-leaving age, and its concomitant, the necessary change which must follow in the curriculum of the secondary schools. Let me deviate for a while to consider the last two of these three factors.

The university courses for accountants are excellently organised. It is an outstanding achievement that the professional bodies have built up a joint policy on university education for their students. But the accountants' university course is a lengthy undertaking. It requires five and three-quarter years to obtain both a university degree and an accounting qualification. I suggest that ways and means should be found to reduce the period of training. Ordinarily, a first degree in the arts is obtainable by a three-year study course and an accounting diploma alone requires five years. Is it really necessary that the combined course should take almost six years? It is difficult to assess with any degree of accuracy whether the accountants' university course is a success. If the total number of students studying for the diploma of one or other of the recognised general bodies of accountants (excluding the Scottish Chartered Accountants) is put at 22,500, then the 600 to 700 accounting students currently taking the university course does not look impressive, for their number is only 3 per cent. of the total. If the

accounting students of all the other bodies, what I may perhaps call the "specialist" ones, are brought into the total, the figure is reduced by over a half—although the percentage may admittedly then be much less meaningful. The question which requires to be answered is whether the long period of gestation in the university and in professional training, almost six years, is in any way a deterrent upon the entry of more students for the accountants' university course?

The extension of the school-leaving age poses a host of new problems for the accountancy profession. As is generally known, it is envisaged to extend the school-leaving age from 15, first to 16 and later perhaps to 17 or even 18. The extension to 16 may not materially affect the accounting profession, since the minimum educational background for entry to the profession has been set at an educational standard commensurate with a school-leaving age of 16. Thus, for the present, time is still on the side of the accounting bodies. But plans should be now laid down to meet the new circumstances when the school-leaving age is raised beyond 16. What will this eventually entail? It will mean that certain general educational subjects need not be included in the accounting curriculum. In the end, it may lead to the abolition of the preliminary examination, from which, in any event, the number of exemptions, it is believed, has grown with the years. The extension of secondary school education to 18—to take the extreme case—may even mean that certain school subjects may be duplicated in the intermediate examination of the professional accounting bodies. Economics, for instance, is a subject in which elementary instruction can be given in secondary schools—and, after all, no deep knowledge of the subject is demanded from their students by the accounting bodies.

Two possibilities would be open. Either the burden of the courses could be lightened by dropping certain subjects, and thereby perhaps shortening the course, or new subjects could be brought in. It is here that a great opportunity for the accountancy bodies might present itself, for the "humanities" could be introduced in substitution for the subjects dropped.

The introduction of humanities into the curriculum of professional studies is bound to meet with resistance. If, as Disraeli said, "the university should be a place of light, liberty and learning", then it is the proper place for humanistic studies. But when Disraeli spoke these words, economics was not a mature science and accounting not a recognised tool of economic endeavour, far less a university subject. He could not foresee the immense growth of professional studies. The last 75 years have been a period of aggressive specialisation. The Renaissance conception of the "complete man" has been relegated in the main to anthropological research.

Yet it is clear that those accountants who have been most able to take advantage of the growing opportunities in national economic life have been initially equipped, or in the course of their professional career have equipped themselves, with a cultural background. Admittedly, their rigorous professional training endowed them with

**Essays in Biography*, by J. M. Keynes, page 106 (quoting from *The Life of Gilbert Wakefield*, by Dr. Bonar, page 405).

a degree of intellectual discipline—and this provided the groundwork upon which to build. But while admitting that "culture-vultures", to use an American term, are highly suspect, how much easier it would be for the accountant generally if cultural subjects were incorporated in the examination syllabus! Some may say that those capable of acquiring culture will in any event acquire it. Nevertheless, it is easier with a few basic lessons!

What is the best way of educating in the humanities? Economics, which I take to be a humanistic subject, is already included in the syllabus of some, though not of all, the accounting bodies, but the standard is elementary. History—social, economic or political—is absent, and so is literature. English is included in the curriculum at the preliminary examination, but requires proficiency only in easy composition. A suggestion would be the inclusion of economics in both the intermediate and final examinations and of history and literature in the intermediate. Such an arrangement would leave almost inviolate the final examination as a test in professional subjects.

"Education," points out Dr. Conant, former president of Harvard, "is at its base, the perpetuation of the values of our society."* Few will disagree that specialised technical subjects do not provide a complete background for the perpetuation of ethical values. And, to conjecture much further, it may well be that extreme political and social ideologies would be less firmly held if all of us adequately participated in learning about our own cultural heritage. "Whilst individuals make communities," to return to Disraeli, "it is institutions alone that can create a nation." Hence it is one of the tasks of those institutions to perpetuate values. In this context the duty of the accountancy profession, particularly through its institutional expressions, is amply clear.

As matters stand, the syllabuses of the recognised accountancy bodies are disparate, not so much in the examination subjects, as in the approach to them—a fact which is discernible from a scrutiny of the examination papers. Many accounting students prepare with the help of correspondence courses and a very few read at universities: the considerable residue attends courses at technical and commercial colleges. Oral instruction being superior to correspondence courses, it follows that attendance at colleges and universities should be encouraged.

The universities do not discriminate among the students studying for the various diplomas of the accountancy bodies participating in the university scheme. But frequently the commercial and technical colleges segregate students of the different accounting bodies, each to form its own class. Since there may in consequence be too few students to make up a class the number of courses held is often less than it would be if tuition for the examinations of one body were accepted for the examinations of the others. This fact was borne out by an investigation which I made some years ago

into the courses held by these colleges. A comparative table of the examination subjects of the three "general" accountancy bodies is reproduced below.

ANALYSIS OF ACCOUNTANCY SYLLABUSES

FINAL EXAMINATIONS

Institute	Society	Association
1 Advanced Accounting (Partnership)	Advanced Accounting Auditing and Taxation—I	Practical Accountancy (Partnership)
2 Advanced Accounting (Executorship)	Advanced Accounting Auditing and Taxation—II	Practical Accountancy (Executorship)
3 —	Advanced Accounting Auditing and Taxation—III	Practical Accountancy (Companies)
4 —	Law (Executorship and Insolvency)	Law (Partners, Executors, Administrators and Trustees)
5 Law (Companies, Liquidations and Receiver- ships)	Law (Companies and Partnerships)	Law (Companies, Liqui- dators and Receivers)
6 Law (Contracts, Bankruptcy and Trusts)	Law (Commercial and Arbitration)	Law (Mercantile and Bankruptcy)
7 —	Cost Accounts	Cost Accounts (including Mechanised Accounting)
8 General Financial Knowledge and Cost Accounting	General Financial Knowledge	Banking, Exchange and Finance
9 Taxation	Taxation	Taxation
10 Auditing and Investigations	—	Auditing and Investigations
11 —	Economics	—

INTERMEDIATE EXAMINATIONS

Institute	Society	Association
1 Book-keeping and Accounts (Limited Companies)	Auditing, Accounting and Taxation—I	Book-keeping and Accounts (Limited Companies)
2 Book-keeping and Accounts (Partnerships)	Auditing, Accounting and Taxation—II	Partnership and Executorship Accounts
3 Book-keeping and Accounts (Executorship)	Auditing, Accounting and Taxation—III	—
4 Auditing Investigations	—	Auditing Investigations
5 General Commercial Knowledge (Elements of Law, Trade and Commerce)	General Commercial Knowledge (Trade and Commerce)	General Commercial Knowledge (Trade and Commerce)
6 —	—	Economics
7 Taxation and Cost Accounting	—	—
8 —	Law (English)	Law (Mercantile)

*General Education in a Free Society. Report of the Harvard Committee, Harvard U.P., Cambridge, Mass., 1948.

Since all the three accounting bodies with which I am here primarily concerned are "general" bodies, as opposed to the "specialist" bodies in the municipal and cost and works fields, and since all three of them are opposed to any particular concentration of training in the three major accounting fields of public accountancy, municipal and local government and the nationalised economic sector, and business, an objective observer would surely be justified in expecting that the general training would be given in much the same manner for the students of all three bodies. It may be that institutions less closely related have more success in formulating joint policies for the teaching of uniform subjects, so as to make up an adequate number of students for courses. The example of the Chartered Institute of Secretaries and the Institute of Bankers which as far back as 1938 agreed on a joint syllabus for English, Bookkeeping and Economics, is a good object lesson.

An interesting example of how education is used as the

lowest common denominator in the accounting profession comes from the United States. There the Public Accountants, who are unrecognised, are seeking recognition at the moment by introducing quasi-registration measures into the legislatures of several States. The Certified Public Accountants (C.P.A.'s), who have been at pains to point out that recognition without general public agreement is valueless, will be forced to fight these bills. The C.P.A.'s are at pains to stress that education is a far better means than legislation to obtain recognition for the Public Accountants and although the Public Accountants have their own professional society, they are encouraged to read for the C.P.A. examinations. In Ohio, the State C.P.A. society is even organising courses for these men to take the C.P.A. examinations.* Here is an example of cordial inter-professional co-operation.

**In Disunity, There is Weakness.* A leading article in *The Journal of Accountancy*, December, 1954, page 726.

Professional or District Audit?

A SELECT COMMITTEE of the House of Lords has pronounced upon an issue of importance to the accountancy profession—and has pronounced, in emphatic fashion, favourably to the profession. The issue was whether the accounts of newly-created Water Boards should be subject to district audit or whether the Boards should have the option of choosing between district audit and professional audit. The issue arose on the Kent Water Bill.

The problem had been before Parliamentary committees on several occasions. In February, 1949, notably, a joint committee of both Houses, after hearing evidence from the profession and from the Ministry of Housing and Local Government, decided in favour of the accountancy bodies that the Mid-Northamptonshire Water Board, which was being created by an Order under the Water Act, 1945, should have the right possessed by municipal corporations, to choose either form of audit. However, the Minister at the time refused to accept this decision and

promoted as a Government measure a Bill to make district audit compulsory on the Mid-Northamptonshire Water Board.

Under the Kent Water Bill, which was promoted by the County Council, three water boards are to be constituted. Clause 116 of the Bill provided that each Board should by a resolution passed not later than two months after the appointed day adopt either district audit or professional audit. Thus the Clause would place the boards in much the same position as a municipal corporation under Part X of the Local Government Act of 1933.

The report of the Minister of Housing and Local Government on the Bill opposed the provision for choice of audit. The report pointed out that the right of choice was peculiar to municipal corporations and argued that it should not be given to indirectly elected boards which are vested with powers to levy precepts on constituent local authorities, some of which do not employ professional auditors. The Minister

stated that it was a well established principle that where the accounts of any of the constituent authorities of a joint board were subject to district audit, the accounts of the joint board should also be subject to district audit.

A petition against alterations of Clause 116 of the Bill was deposited jointly on behalf of the Institute of Chartered Accountants in England and Wales, the Society of Incorporated Accountants, the Institute of Chartered Accountants of Scotland, the Institute of Chartered Accountants in Ireland, and the Association of Certified and Corporate Accountants. The petition was first heard before a House of Commons Committee in July, 1954. Hearing arguments and evidence, this committee decided that the water boards should have freedom of choice, but that if a board decided on professional audit the resolution adopting it must be passed by a two-thirds majority of the members.

The "audit clause" then came before the Select Committee of the House of Lords at the end of April last. Mr. Michael Rowe, Q.C., and Mr. Ramsay Willis appeared for the accountancy bodies, as they had done before the House of Commons Committee. Mr. Rowe reviewed the

history of the legal provisions on the audit of the accounts of municipal corporations and the development of professional audit. He pointed out that in many recent public Acts, either nationalising industries or setting up new boards, professional audit had not only been authorised but made compulsory on the bodies concerned. He reviewed the history in relation to water boards. Evidence on behalf of the accountancy bodies was given by Mr. F. E. Price, F.S.A.A., now a member of the Council of the Society of Incorporated Accountants.

After hearing a statement from a

representative of the Ministry of Housing and Local Government in support of the Minister's report on the Bill the Chairman of the Select Committee, Lord Merthyr, announced their decision in the following terms:

The Committee are of the opinion that Clause 116 should be amended by leaving out the proviso to paragraph (b) of subsection (2) thereof. The Committee propose to make a Special Report to the House on this Clause giving the Committee's view that since several Committees of both Houses of Parliament have now decided in favour of professional

audit for water boards, it is no longer justifiable for the Minister of Housing and Local Government to put the parties to additional expense in proceedings on Private Bills and Orders by recommending that district audits be imposed upon such boards.

The effect of leaving out the proviso to sub-Section (2) (b) is to remove the requirement for a two-thirds majority if a professional audit is to be adopted. Equality of treatment between the two systems is thus restored. It is to be hoped that this forthright decision will remove the topic once and for all from the field of controversy.

The Use of "Change Accounts"

IN THE THIRD Research Lecture on *Accounting Dynamics*, delivered at Incorporated Accountants' Hall on May 25 by Professor F. Sewell Bray, F.C.A., F.S.A.A., he completed the *pro forma* set of accounts which he had begun in the second lecture given last December (see ACCOUNTANCY, January, 1955, page 17). The accounts he had put forward in the second lecture gave as the "gross output" of a manufacturing concern the sales of finished goods and finished parts *plus* the increase or *minus* the decrease in stocks of such goods and parts. Deducting the cost of goods (raw materials and the like) and outside services varying with output, gave the "net output" or "value added." Then deducting from the net output the cost of variable labour gave what the Professor called the "variable margin."

In the third lecture he itemised, in three groups of expense in the *pro forma* accounts, the operating overheads. They were (1) purchases of the various goods and services, related to operating facilities but "not immediately varying with output"; (2) the cost of labour allocated to standing overheads and to administration and management; and (3) capital items (rents and depreciation of operating assets). Deducting these

operating overheads from the variable margin gave "operating income."

Professor Bray listed the items in the three groups of operating overheads.

Figures are entered in all the accounts in three columns, headed "Period One," "Period Two" and "Change" (the difference between the entries in the first two columns). Professor Bray was concerned for the greater part of his lecture to continue the discussion of the two earlier lectures on the significance and use of the changes thrown up by the accounts, called by him "change accounts."

Again the change accounts give us short-term accounting information about incremental costs and revenues and enable us to observe the actual behaviour of costs with actual changes in outputs. For example, the change part of a product operating account will show us, as a result, the incremental costs of expanding the output of a specific product by a specific amount.

It was necessary, said Professor Bray, that the relationships between dependent items shown in the accounts should be measured against standard or normal relationships. As an instance of a standard relation-

ship he quoted from T. M. Whitin that "under certain assumptions the rational entrepreneur should attempt to vary his inventory levels . . . with the square root of sales rather than with sales." Another related example (one which could, we think, be traced back to Wicksell's *Interest and Prices* published in German in 1898—see page 67 of the English edition) was the idea that working capital should vary with the square root of output. Developing from this idea and from Keynes's definition of working capital, the Professor considered at length the concept of an inventory that was normal or standard in relation to output. Other standard relationships needed to be deduced between, for example, debtors and sales, and creditors and purchases. Variances from the standards, as shown in the change accounts, could then be assessed for their significance:

For example, if inventories, debtors or banks and cash balances are too high having regard to the standards calculated from the type of relationships we have discussed, it could suggest an ineffective use of the resources locked up in those other categories. In short, we can regard all the various kinds of relationships between accounting aggregates, discussed and to be discussed in this series of lectures, as giving a complete, balanced and constrained view of the expected transactions of an entity . . . always provided such an entity can reasonably estimate its oncoming outputs . . .

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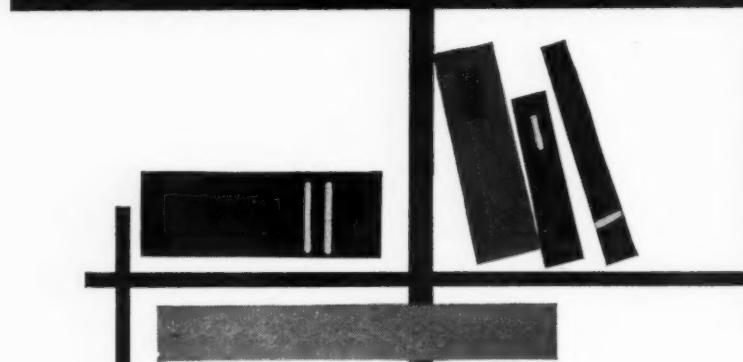
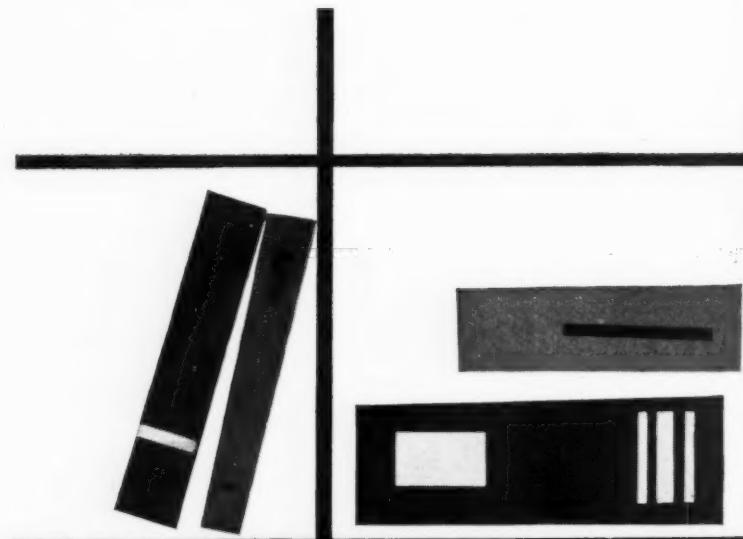
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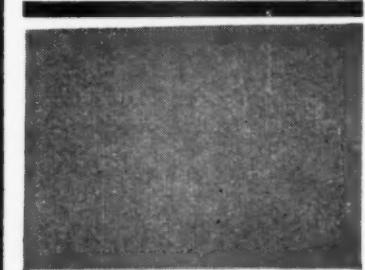
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Legal Rights and Intestate Succession in Scotland

By DAVID CARSON, C.A.

A TESTATOR CANNOT by testamentary disposition deprive those who are entitled to claim legal rights from doing so. The rights are in the nature of a debt due from the estate, although they cannot be claimed in competition with creditors of the deceased, and the only ones who can claim are a surviving spouse and surviving children. It is important to remember that the claim is against movable estate only, except as regards the widow's right of terce and the right of the widower to courtesy.

Legal Rights

Terce is a legal liferent, payable to the widow, or one-third of her husband's heritable estate, but it is not payable from feu-duties, revenue derived from minerals or mansion house of the estate (nor from its rent if let). Although heritable bonds are normally movable as regards the succession, terce is nevertheless payable from them.

Courtesy is payable to the surviving husband from his wife's whole heritable estate and also from heritable bonds, although there is a condition to the right that a child must have been born of the marriage and was, for however short a time, the mother's heir-at-law.

The annual amount of terce may be fixed and both terce and courtesy can be redeemed at the instance of the proprietor in terms of Section 21 of the Conveyancing (Scotland) Act, 1924.

As stated, apart from the above legal liferents any claim that can be made is against the movable estate, and these claims are for surviving wife *ius relicte*, for surviving husband *ius relicti*, and for children *legitim* and they vest on the deceased's death. Interest is payable until date of payment of the capital sum—the normal rate may be taken as approximating to the yield from trustee securities. The accompanying illustration shows the nature of the estate which comes into the computation and of the deductions which will usually fall to be made in the ascertainment of the legal rights, should any be claimed.

The three headings illustrate certain points in the distinction between movable and heritable estate. The deceased's debts, which are assumed to be of an ordinary movable nature, form a deduction wholly from the movable estate;

the accrued revenue on heritage should be treated as ordinary movable estate, as should the accrued revenue on the heritable bond; and although the heritable bond is movable it is treated as heritable *qua* legal rights. The figure to be noted is the net movable estate of £17,362.

Assume the testator died February 28, 1953.

	Mov- able	Herit- able	Herit- age
	£	£	£
<i>Estate as valued at date of death</i>			
Furniture and effects	800		
Tenement property— rents accrued thereon	60	5,000	
20,000 shares of £1 each of A. & Co., Ltd., at 22s. per share	..	22,000	
Heritable bond for £4,000 at 5 per cent. at par	..	4,000	
Interest accrued there- on less tax ..	32		
	22,892		
<i>Less: funeral ex- penses</i>			
Widow for mournings	75		
Debts due by deceased ..	60		
Estate duty on movables ..	400		
Administra- tion expenses	4,695		
(proportion)	300	5,530	
	17,362	4,000	5,000

It is a normal provision in a testator's settlement that if any of those entitled to claim their rights do so any provisions in their favour in the will are to be forfeited, so that it is usually not possible to claim both rights and a provision under the will. For a surviving husband or wife the right is to one-half of the net movable estate if there are no surviving children (or the children have discharged their rights prior to the testator's death) or one-third if there are children; and the children's right of *legitim* is, similarly, to one-half of the net movable estate if there is no surviving spouse (or the parent has dis-

charged his or her legal rights prior to testator's death) or one-third if a spouse survives. It would follow, therefore, that a widow having a right to one-half of the net movable estate in the illustration would receive £8,681 with interest from date of death, or if the right was to one-third the sum of £5,787 6s. 8d. with interest. It will be clear, therefore, that the maximum which can be paid out of the estate in legal rights would be two-thirds of the net movable estate, leaving one-third only to be disposed of under the deceased's will, the testator having in addition the right to dispose as he likes of heritable bonds and heritable property subject, it may be, to a legal liferent. Further, gains and losses on the estate realised do not affect the amount for legal rights purposes.

We have given a short example, but whatever the number of transactions involved in the preparation of the account following on deceased's death, in some form or another a similar statement of movable estate would require to be made, probably by annexation to the main account, bringing out the amount due in respect of legal rights, if claimed.

Intestate Succession

The most obvious case of intestacy would arise where the deceased had failed to make a will, thereby involving the application of the rules of intestate succession, which in effect constitute a will made by law, failing the deceased's own testamentary disposition.

First of all, it should be kept in view that if there is a surviving spouse and/or children the legal rights referred to above will arise again, and so far as the movable estate is concerned the problem is with regard to the disposal of the deadspart or, failing a spouse or children, the disposal of the whole of the succession.

Blood relationship is all-important, so that a surviving spouse is not one of the next of kin. The children rank first as next of kin; failing them, grandchildren, and so on; thereafter, collaterals of the deceased, brothers and sisters; failing them, their issue; thereafter, ascendants, first of all the father; and then, failing him, collaterals of the father or their issue. There are, however, certain statutory modifications to the next of kin succession contained mainly in the Intestate Movable Succession (Scotland) Act of 1855. The principle of representation was introduced by that Act, so that a grandchild, for instance, could represent his predeceasing parent and take from the succession what the parent

could have taken. A simple illustration of this principle would be as follows:

Assume net movable estate of £3,000, the deceased being survived by widow, by children A and B, and by grandchildren X and Y, who are the issue of a predeceasing brother C.

Division:	£	£
Widow <i>ius relictæ</i> one-third	1,000	
Legitim A one-half of one-third	500	
Legitim B one-half of one-third	500	
Deadspart or succession A one-third, say	333	
Deadspart or succession B one-third, say	333	
X and Y one-third between them	334	
	1,000	
	£3,000	

It should be noted that X and Y take *per stirpes*. Between them they take what their predeceasing parent would have taken of the succession, although not of *legitim*, in which as grandchildren they could have no part. This principle is applied also where collaterals survive the deceased, say brothers B and C, and X and Y, children of predeceasing brother A. B receives one-third of the total net movable estate of, say, £3,000, that is he receives £1,000;—C receives similarly £1,000; and X and Y share £1,000.

By the Intestate Movable Succession (Scotland) Act the right of representation does not extend beyond the issue of collaterals of deceased, and it would follow, therefore, if the survivors were paternal uncles A and B, and X and Y, the children of predeceasing uncle C, uncles A and B would take the whole of the movable estate, and X and Y would have no part.

It should be noted that included in movables as regards the succession are heritable bonds, which are treated as heritable only *qua* legal rights, but in other respects are normally movable, so that if to the above £3,000 is added a heritable bond for £1,000 the rights of widow and children in respect of *ius relictæ* and *legitim* would still be the same, but the grandchildren would have a share of the sum of £2,000, and the children of the predeceasing collateral of deceased in the example would have a share of £4,000.

As regards heritable estate, the rule is that the eldest son takes it and he has no other right in any part of the total estate unless he collates, as referred to below. Failing him, his issue, males

always being preferred to females, would take the heritage; thereafter, the next son in seniority or a descendant of his similarly; and failing sons or their descendants, a daughter or daughters as heirs portioners; failing them, the immediate younger brother of deceased or his issue; males again being preferred to females; then, the immediate elder brother of deceased or his issue; and failing brothers, a sister or sisters as heirs portioners; in the ascending scale, the father; failing whom, his immediate younger brother or his issue; failing whom, the immediate elder brother, and so on.

It will be observed, therefore, that there is a distinction between heritable and movable estate as to the succession. In heritage males are preferred to females and the rule of primogeniture applies, whereas in movable estate all who are related in the same degree to the deceased share in the estate irrespective of sex.

Then in heritage representation is universal throughout the lines of succession. In movables it does not go beyond representation of collaterals of deceased. Again, in heritage as distinct from movables, the principle is always by descent even among collaterals so far as it will go, then accordingly upwards. There is no succession in heritage to the mother or her relatives, although in movables the mother may have certain rights failing survivance of the father of the intestate, and the Act of 1855 gives the right under certain circumstances to brothers and sisters uterine or their descendants to one-half of the movable estate.

Collatio inter Heraedes

The basis of this principle is that the person who is the heir in heritage should have the right to throw his heritage into the pool with movables, and that a division should be made without distinction. The matter is quite simple where one deals with an eldest son in relation to a division among children only, but it becomes somewhat more complicated beyond this type of division. An example will illustrate this point:

Assume deceased dies survived by his widow, an elder son A, a son B and a daughter C, and children X and Y of a predeceasing daughter D.

The total estate consists of movables of £12,000 and heritage of £1,000.

The widow's right would be to one-third of the movables, or £4,000 and terce on the heritage. The *legitim* fund would be £4,000 and deadspart or the succession would be £4,000.

Clearly the elder son will desire to collate,

and he will therefore throw into the *legitim* fund one-half of the heritage, so that the *legitim* fund becomes £4,500, divisible into three parts, one part to each of A, B and C. The deadspart will also be £4,500 and will be divisible as to one-fourth to A, one-fourth to B, one-fourth to C, and one-fourth between X and Y, the children of predeceasing daughter D. But if it should be assumed that only the elder son A had pre-deceased, leaving a son and daughter, the division would be as follows:

Widow's *ius relictæ* as before one-third of the movables (£4,000) and terce; *legitim* fund, £4,000 divisible among children B, C and D; and deadspart £4,000. And assuming the son of predeceasing son A collates, the total for division would be £5,000 divisible as follows:

	£	£
Son B—one-fourth	..	1,250
Daughter C—one-fourth	..	1,250
Daughter D—one-fourth	..	1,250
Grandson—value of heritage	1,000	
half excess movables over value of heritage	..	125
		1,125
Granddaughter		
half excess movables	..	125
		1,250
		£5,000

Finally there should be observed the link-up between representation in movables, and the extent to which an heir in heritage can collate. In other words, a grandchild, being the heir, can collate with children of deceased to take a share of movables. A nephew of deceased, being a child of the predeceasing collateral heir, can collate with surviving collaterals of deceased to take a share of movables, but a cousin of the deceased, being the heir in heritage, cannot collate in competition with collaterals of the predeceasing father to take a share, in respect that at that relationship there is no representation in movables.

For the circumstances under which the intestate's father, who, failing his mother, has a right to one-half of movables in preference to collaterals of deceased or their issue, reference should be made to the Act of 1855 as amended by the Intestate Movable Succession (Scotland) Act of 1919. The Intestate Husband's Estate (Scotland) Act, 1911, and The Law Reform (Miscellaneous Provisions) (Scotland) Act, 1940, provide for the preferential claim of £500 (with interest at 4 per cent. per annum to date of payment) to the surviving wife or husband respectively, the conditions for the claim being (a) intestacy, whole or partial, and (b) that the deceased was not survived by children or descendants.

Richard Roe's Receipt

[CONTRIBUTED]

MANY ACCOUNTANTS must have treasured memories of their experiences of service accountancy in its less refined forms: of the cox'n of a destroyer, for instance, trying desperately in his brief spells in harbour to balance a victualling book containing thirty days' issue per month to seven messes, twenty men each, of forty commodities at prices in sixteenths of a penny. Or of the canteen audit in which the most punctilious and searching check was made of income and expenditure, and no thought at all given to stock control or even to the difference between wholesale and retail prices. (If income exceeded expenditure, what need for more?) Service days over, they have seen less of this kind of accountancy and perhaps sometimes forget how many of the most homely kinds of civilian audit too are conducted by people who have no sort of qualifications for the work, and small enough appetite.

The service audit was indeed on occasion the pattern of our small audit, even though it had to be signed (in one of the Services) by three officers, one of them being a Supply Officer; for when, as sometimes happened, one of the "other two" chanced to have been an accountant in private life, the wild surmise with which the Paymaster Lieutenant regarded some of his quite moderate suggestions was something to rival even stout Cortez.

Whether the small audit be a service memory or a present chore it has one inevitable rule: there must be a receipt for every item of expenditure. In larger audits, too, there is a broadly similar principle, but in them the receipt, being one of several criteria, does not loom so large; it is to the cricket club treasurer that the collection of these elusive slips of paper becomes, for a week or two in each accounting period, a necessary nightmare. His tally is seldom complete: John Doe and Richard Roe have forgotten to complete and post on their acknowledgments of payments made to them, and the treasurer writes to ask them if they will now do so, the receipts being "required for audit purposes."

He may, if he is of an enquiring turn of mind, wonder why he has to do this. The receipt (he thinks to himself) is primarily designed to prevent the recipient making a second demand for payment; but John Doe, who was paid in cash, might now be tempted by my

admission that I have no receipt to say that he never received the money, whereas Richard Roe, who like most of the club's creditors was paid by cheque, could be easily defeated by banking evidence if he made any such suggestion. In any case a large number of quite substantial businesses in dealing over the counter make no pretence of issuing receipts, whether they take cash or cheques. They may issue pieces of paper with the totals involved appearing on them, but they are seldom receipts.

Then our treasurer remembers the receipt's secondary purpose, the satisfaction of the auditor: the auditor must work from the premise that the treasurer may be dishonest. But (says the treasurer) if I were, what would spring more immediately to my mind than the forging of receipts? And on this showing is not the absence of a receipt a proof of my honesty? For certainly some of the grubby little pieces of paper which the auditor passes without question are really very questionable looking documents indeed.

There is of course a question of revenue involved, and the treasurer may know of Sections 101-103 of the Stamp Act of 1891. But they say merely that all receipts for sums of £2 and over must be stamped, the creditor being liable to penalties if he does not stamp them: nothing is said as to a duty to give any receipt at all. And if Richard Roe sends his receipt without a stamp, then the treasurer will probably stamp it himself if he thinks he may ever have to produce it in Court—or if he knows that the auditor will insist on the stamp—and pay the twopence out of his own pocket. Moreover, if the club were to indulge in the luxury of payments through its bank by traders' credits, then not only would all the cheque stamps (but one) be dispensed with, but no receipts at all would usually be forthcoming. Revenue as chancy as this can hardly be the reason for the auditor's insistence.

In fact, although the law refrains from saying that all receipts must be stamped, it comes fairly near to it and custom does the rest. In a period when all taxation is high and is still usually too little for the purposes for which it is needed, the simple twopence on receipts over £2 may seem a small enough burden and not worth powder and shot. So indeed it is; the stamp on the cheque, also

twopence, is another small enough matter, which, however sadly it complicates the banks' arguments with their customers about charges, cannot be enlarged into a stick to beat the Government with. It is not the twopence that irritates our treasurer: it is the doubt whether the trouble he is put to is really necessary. He may recognise in passing, as he has not done before, that a very large number of the country's daily transactions are taxed fourpence; he may think it odd that this flat rate covers amounts to infinity, while the conveyance of his house is stamped quite differently if it is worth £2,500 from what it is stamped if it is worth £10,000. But these are only captious side thoughts.

Next time he receives a cheque with a receipt form on the back he may wonder still further. By what right does the drawer thus bully him into stamping a receipt? He is of course being saved postage, but even so why should he stamp the receipt? If he enquires into this aspect of the matter a little further he will find that a valid cheque is an unconditional order to the bank and that normally payment of the cheque is not made conditional upon a stamped receipt being completed. But this will not help him very much for of course in practice the bank will not pay the cheque without it.

He takes a further step or two in the bank and discovers that a cheque can be crossed "Account payee only," which would seem to put all the onus on the bank. Why a receipt then? And he notices perhaps that his local authority asks him to make his cheque for his rates to "Bearer," crossed "Midwinter Bank, Exford, a/c Exford Borough Council." This avoids the need for endorsement, true; the local authority probably hasn't seen that it makes a receipt redundant also.

All this is wandering away from the small audit and is anyhow (as the accountant may suggest) rather pointless. No one is going to do anything about it, even if indeed anything needs doing—and our treasurer's auditor will still insist on the production of the receipt. If he is not an accountant but just another member of the club, baker or candlestick maker perhaps, he will insist very firmly. If he is an accountant, especially if he is past his first youth, and has seen a little around the principles and practice of his profession, his insistence may be less firm: although the receipt still has its real importance, perhaps it would not have mattered if Roe, at least, had been let off. But it would never do to admit that to the treasurer.

The Herd Basis

By G. SWANNELL, A.S.A.A.

THE TENTH SCHEDULE of the Finance Act, 1947, now re-enacted in the Twentieth Schedule of the Income Tax Act, 1952, allows farmers to adopt the "herd basis" in their tax computations. In effect, the herd basis offers to all farmers the prospect of a tax-free capital sum when the whole or a substantial part of a herd is sold. But the basis appears to have been less widely used than this great advantage—and other less striking advantages—would warrant.

What "The Herd Basis" Is

The herd basis applies to mature animals only—to a production herd of a particular class of animals, for example, dairy or beef. The basis applies to all types of animals but in this article will be considered only in its application to dairy and beef cattle: the opportunity, for example, for sheep and pig farmers to use it is strictly limited to exceptional breeders. A single animal can constitute a herd and there is no upper limit to the number. It is not possible, however, to treat part of the herd on the herd basis and the other part not on the herd basis.

Entries in the books for those animals elected to be treated on the herd basis are outside the ordinary farm revenue account: instead, the value of the animals appears as a capital asset on the balance sheet. Any loss or profit from the sale of the asset or a substantial part of it—a substantial part being not less than 20 per cent.—does not attract liability to (or relief from) income tax, sur-tax or profit tax. It is this exemption that makes the herd basis frequently worthwhile.

Example.—John Pepper owns 100 dairy cows treated on the herd basis and valued at £5,000. Because of ill-health he restricts his herd to 30 animals. The sale of 70 animals realises £7,000, showing a profit of £3,500. As a substantial portion of the herd was sold the profit of £3,500 is not subject to tax.

Who May Elect

Farmers who first kept a production herd after April 6, 1953, may elect for the herd basis not later than twelve months after the end of their first year of assessment.

Farmers who had not kept a production herd for a period of at least five years before April 6, 1953, may elect not later than twelve months after their first year of assessment after they recommence to keep such a herd. Other farmers who were in business before April 6, 1953, have now lost their opportunity to elect, except by incurring the penal provisions of Paragraph 5 of the Twentieth Schedule of the Income Tax Act, 1952. Most farmers come into this category. The main purpose of the following paragraphs is to show why these farmers might profitably elect for the herd basis, even at this late stage, and how they should go about electing for it.

Before proceeding further, however, it must be pointed out that if in the example John Pepper had sold his 70 cows for £2,000 he would have lost £1,500, and the loss would not have ranked for any tax relief. As prices cannot be foretold the decision whether or not to elect for the herd basis is to some extent a gamble. For this reason the final decision must be made by the farmer himself. But some factors influencing the prices of cattle may be briefly considered.

Since election for the herd basis must be made in respect of all animals of a particular class, it should be noted that generally speaking immature animals of the bovine species would not be eligible for the herd basis until they had reached maturity. Animals are regarded as mature when they first produce young.

Factors Which Affect Animal Values

1. Artificial Insemination and Pedigree Animals

Artificial insemination has enabled all farmers to improve the quality of their herds by the use of high-class semen from bulls otherwise beyond their reach. Other farmers have introduced good pedigree bulls and heifers into their herds to achieve the same result. If the value of a herd increases by these methods *after election* for the herd basis the increased value is largely tax-free.

2. T.T. Attested Herds

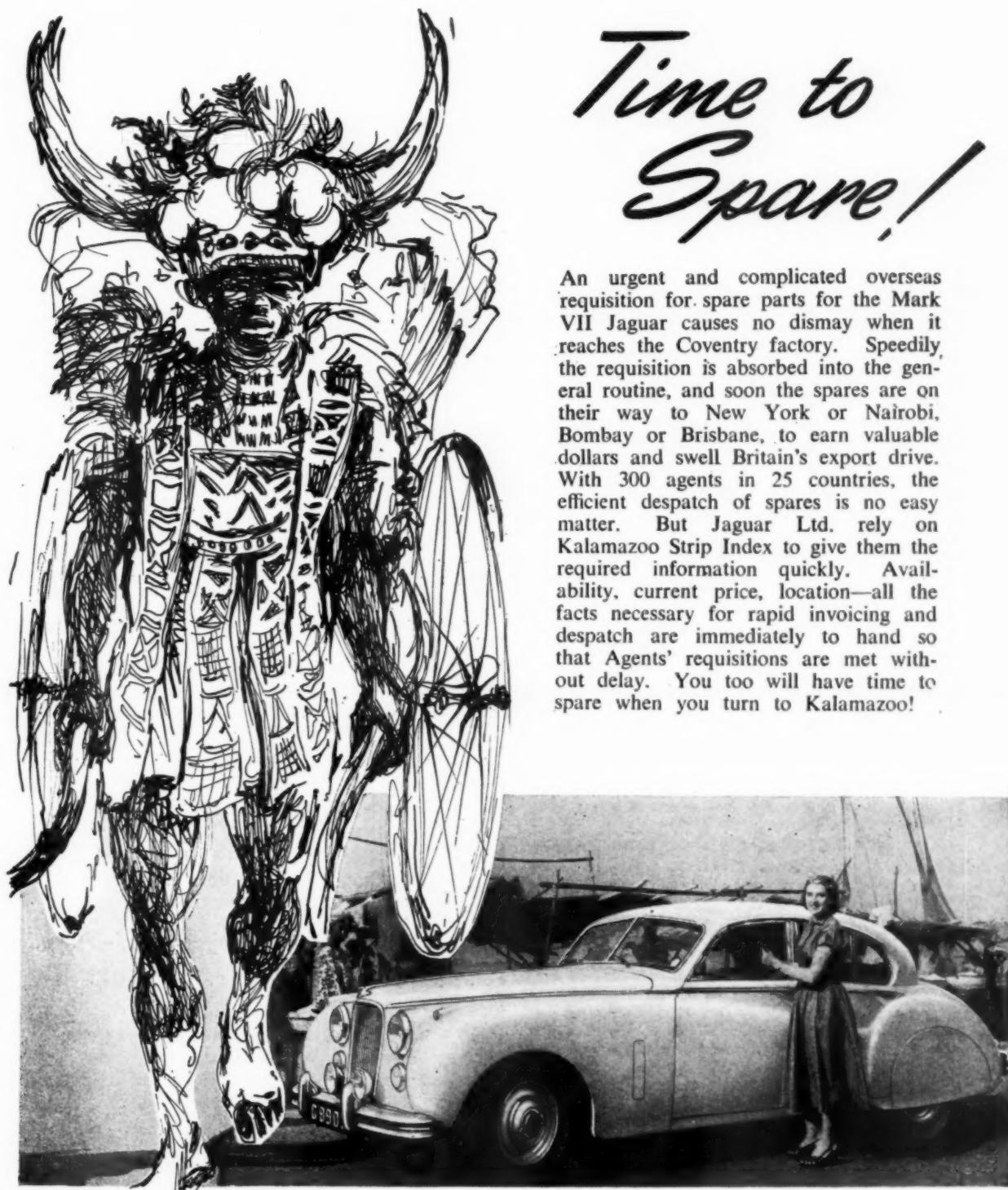
Another modern trend, in some areas a necessity, is the movement towards T.T. attested herds. It is a well known fact that animals which have passed the T.T. tests are usually much more valuable than those which have not. These prefixes cannot be acquired overnight and the farmer who elects for the herd basis before his animals have acquired them again stands to reap a tax-free profit in due course.

3. Up-grading and Pedigree Cattle

Whilst most herds in this country are non-pedigree, it is probably true to say that many herds contain a number of pedigree animals (the factors mentioned in the two preceding paragraphs largely account for this). Up-grading is herd improvement by selective line breeding, whether or not pedigree animals are used. Some herd book societies permit non-pedigree cows of certain standards to be entered in "supplementary registers" and eventually the fifth generation can qualify for the herd book proper. All pedigree animals have attained the standards laid down by their breed societies, and in addition detailed records are necessary to prove identification and for other purposes. These records prove useful when an election for the herd basis is made.

4. Milk Records and Recording

The use of milk records is on the increase. These records give an acceptable yardstick for the performance of an



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animal and when used for several generations they permit reliable estimates of the worth of a dam or a bull as a future progeny-getter—and also affect its market value.

Herd Additions

The cost of "additions" is not allowed as a deduction in computing profits for assessment. If animals are added to a herd from what may be termed a farmer's stock in trade, the value of these additions must be credited in the profit and loss account. The cost of rearing will already have been included in the various debits for feeding-stuffs, veterinary services, wages and the like. The amount to be credited is "a sum equal to the cost of breeding it and rearing it to maturity" (Schedule 20, paragraph 7 (a)) or, if an animal is not home-bred, the cost of purchase plus the cost of rearing it from the date of purchase.

The cost of breeding and rearing to maturity is a difficult item to ascertain, but the Inland Revenue will allow for this figure a sum equal to 75 per cent. of the "open market value." The open market value may be arrived at comparatively easily. But the formula penalises the high quality T.T. attested animal in comparison with the nondescript one. And open market prices fluctuate seasonally, and according to market conditions. The cost of rearing an animal is approximately the same regardless of its quality, and does not fluctuate with the season or every market movement in prices. Thus, it is usually preferable to agree a standard cost of breeding and rearing per month. The cost of an addition to the herd could, for example, be computed as follows:

	£
Cost of breeding	5
First 6 months at £2 per month	12
Next 18 months at £1 10s. per month	27
Every additional month, say 12, at £1 per month ..	12
	<hr/>
	£56
	<hr/>

It is troublesome to ascertain the figure for the cost of breeding but as a cow usually yields her keep in milk until the last three months (or less) only this period can be attributed to breeding.

If the actual cost of rearing an animal to maturity can be proved, then that is the figure at which the animal should be admitted to the herd.

Herd Replacements

Sooner or later animals in a herd must be replaced, and the quality and value of the replacements must then be compared with the original quality and value of their predecessors. If an animal replaces another of equal quality which originally cost less than the replacement, the difference in price being solely due to a change in the market, then no disallowance is made.

The question of value is only a matter of arithmetic, but the question of quality can cause considerable argument. Save in special circumstances (see below) the herd basis penalises the introduction of inferior animals, but since it would in any event be bad farming policy to

lower the average quality of the herd by introducing them, the farmer would normally affirm that replacements are at least equal to their predecessors. However, replacements are usually unproved heifers and it is difficult to prove that they are superior in quality to their predecessors.

The introduction of a T.T. animal in place of a non-T.T. animal must be considered an improvement. The extent of improvement might well be stated at 10 per cent., which is roughly the margin of value of the T.T. milk bonus over other milk.

Schedule 20 of the Income Tax Act, 1952, paragraph 3, sub-paragraph 6 (1) governs the special circumstances in which inferior animals are not penalised when used as replacements, as follows:

1. If there is loss or slaughter of a herd or part of a herd under the law relating to diseases of animals, for example, anthrax or foot and mouth disease.
2. If there is a sale of a herd for reasons wholly beyond the owner's control, for example, the compulsory purchase of land.

In these circumstances, if inferior animals are bought to replace better ones, then only the equivalent of the cost price of the inferior animals is brought to credit and it is not brought to credit until the animals are actually replaced.

Relief under paragraph 3, sub-paragraph 6 (1) has now been extended by Section 23 of the Finance Act, 1953. Farmers who had not previously elected for the herd basis are given a belated opportunity of so doing in respect of animals affected by diseases which led to compulsory slaughter. In this case the compensation monies are brought to credit when the expenditure is incurred on the replacements. A claim for election for the herd basis must be made not later than twelve months after the end of the first year of assessment for which the tax chargeable falls to be computed by reference to the figures of a period to which the compensation is relevant. Generally speaking, the claim would have to be made within two years from the end of the year in which the event occurred. It must be remembered, however, that relief under this Section can apply only to mature animals: receipts for "followers" would have to be brought to credit as they arose.

Preventing Tax Avoidance through the Herd Basis

The penal Schedule 20 of the Income Tax Act, 1952 (paragraph 5) is designed to prevent tax avoidance through the herd basis. The paragraph would operate for the many farmers who were in business before April 6, 1953, and who might now desire to elect for the herd basis. Briefly, it lays down that if the herd basis is adopted or discarded by means of an "artificial transaction" at other than market prices, then the herd must be valued at "open market" prices. An "artificial transaction" may be defined as one in which the seller or buyer has control over the other, or a third party has control over both.

For farmers continuing in business there would be little difference in profits whether the herd basis or the

trading stock basis were adopted. But usually it is found that a stock valuation under the trading stock basis is lower than "open market value", and in due course (on death or retirement) the whole herd is sold at "open market value" and income tax would then be payable on the difference in values. Under the herd basis this difference is not taxable and by careful planning more than one realisation could be made without attracting taxation.

Thus election for the herd basis might still be advantageous and it might be worth commencing a new business in order to have the right of election. Such a business could be either a partnership or a limited company, either of which might elect for the herd basis not later than twelve months after the end of the first year of assessment for which it is chargeable for tax under Case 1 of Schedule D.

If the business commenced with immature animals which were subsequently reared to maturity, and a herd was built up by continual additions, then the animals would be brought in at the cost shown earlier, and the penal provisions of paragraph 5 of Schedule 20 of the 1952 Act would not be invoked. However, the mature herd would be achieved only slowly and for this reason many would be unwilling to proceed in this way.

Other newly-formed businesses which would be affected by the provisions of paragraph 5 of Schedule 20 have these alternatives:

1. To take over the complete farm;
2. To take over only the production herd in question;
3. To take over the production herd and all other livestock.

The provisions of the paragraph would be met by having a professional valuation made of the *mature animals* (comprising the herd) at open-market prices. The advantages and disadvantages of each of the three courses would vary between farms and would have to be considered on the facts. But, generally speaking, since the first course would mean that cessation provisions would be invoked for the old farming activities, and the second course would require that precise records had been kept regarding labour, feeding stuffs and so on, the third course—the taking over of the production herd and all other livestock—would normally be the one to be preferred.

The adoption of this method would mean that the cessation provisions would not apply to the old farming business, and the tax payable on the profits arising from the take-over of animals at open market prices would not be payable until between twenty and thirty-three months later, depending upon the date of the accounting period.

Example.—Percy Salt's financial year ends on May 5, 1954. He adopts the herd basis on June 5, 1954. The profit consequent upon the change-over is shown in the accounts for the year ending May 5, 1955. This governs the assessment for 1956-57, for which the first instalment of tax is payable on January 1, 1957.

When the adoption of the herd basis is contemplated and it is known that the penal provisions of paragraph 5 of Schedule 20 of the 1952 Act will be invoked, the following factors should also be considered, as well as the date of the year-end:

1. Dairy cattle are at a discount in May and at a premium in October;
2. Dry cows are worth much less than freshly-calved cows;
3. Newly-calved heifers are unproven;
4. Cattle bought at high prices and placed in an unknown herd lose a considerable portion of their value by reason of the change.
5. Capital expenditure in the same year as the change-over would result in extra tax allowances when the profits from change-over are assessed for tax.

The Case of George Sugar

For the purpose of the following illustration, which bears no relationship whatsoever to any known living person, George Sugar's success is exaggerated, but in practice comparable results might well be attained by satisfactory breeding and careful planning—and reasonable luck.

George Sugar owned a mixed farm and maintained a nondescript herd of 20 cows and heifers for milk production. He decided to specialise in milk production, to aim at obtaining the T.T. attested label for his cows and to up-grade his herd to pedigree standards. He had heard of the opportunities arising for tax-free profits from the herd basis and elected for this method. As the original date for election had already expired and he did not wish to delay his project unnecessarily, he decided to form a limited company to take over the whole of his farm livestock. Since he intended to retain for himself the controlling interest in this company, the penal provisions of paragraph 5 of Schedule 20 of the 1952 Act would come into operation. There would thus have to be a valuation of his *mature animals* at open market prices, so that it was to his advantage to have the valuation made while his herd was still considered "nondescript."

Shortly before forming the company, and with its formation in mind, George Sugar purchased a high class T.T. bull for £1,000.

The open market valuation on the day the company was formed was as follows:

	£
1 T.T. bull (pedigree)	400
20 Cows and heifers (in calf or profit)	1,400
	<hr/>
	£1,800

George Sugar's personal farm account when the limited company took over was as follows:

	£
20 Cows at valuation	600
1 Bull at cost	1,000
	<hr/>
	£1,600

Thus there was a profit of £200 (£1,800 less £1,600). The loss in value of the pedigree bull resulted because this high-class animal entered an unknown herd and so lost his valuable identity.

George Sugar also spent over £200 on the installation of milking plant before the company was formed. The

capital allowances on this expenditure offset the taxable profit of £200.

During the following years all the original females were replaced by pedigree T.T. animals. The cost of these replacements exceeded the original value of the animals going out by £800, and because of the herd improvement this sum was disallowed for purposes of taxation. During the same period the whole herd, the dairy and the cow houses passed the T.T. tests.

All suitable heifer calves were retained as additions to the herd; in this way the herd was increased to over 100 animals, the additions being brought in at £56 (as computed on page 217 above). George Sugar had the misfortune to have his pedigree bull compulsorily slaughtered, but as it was insured for a sum of £500, he eventually received that sum in compensation. A replacement was obtained costing £400, but as the new animal was not as good as the original only £400 of the £500 compensation was brought to credit in the profit and loss account.

Farmer Sugar showed his animals successfully at the leading shows in the country for some years, and when he finally achieved his ambition of winning the Supreme

Championship at "The Great Dairy Show," he decided to retire. A dispersal sale of the mature animals was arranged and their "balance sheet" value at this date was as follows:

	£
1 Bull at cost	400
20 Cows (replacement) at cost	2,200
100 Cows and Heifers (home bred additions at £56 each)	5,600
1 Bull (Son of Supreme Champion)	56
	<hr/>
	£8,256

The proceeds of the sale amounted to £20,256, giving a tax-free profit for the limited company of £12,000.

After the sale of mature stock only the "followers" remained. But if within five years George Sugar built up a milk production herd of more than 20 per cent. of his former herd, he would have to pay tax on the £12,000 in the proportion which the size of the new herd bore to that of the former herd, with a maximum proportion of 100 per cent. He therefore arranged to sell the followers to his son, who was planning to run the farm on his own account.

For this purpose a Preference dividend is one payable on a preferred share at a fixed gross rate per cent. If the dividend is partly fixed and partly variable, only the fixed part is a "Preference dividend"; the balance is treated as an Ordinary one.

Incomes, Profits and Tax

In recent statements in the House, the following facts have been disclosed:

- (a) It is estimated that after deduction of income tax and sur-tax only between 450 and 500 people now have over £6,000 a year; about 50 over £10,000.
- (b) The average income tax and sur-tax payable by persons with an income of over £10,000 a year is £12,300; of between £2,000 and £10,000, it is £1,315; and of under £10 a week it is £11.
- (c) The reduction in the standard rate will benefit companies as undistributed profit to the extent of about £42 million in a full year.

Clitas

The Release No. 23, dated April 18, 1955, brings the index up-to-date. It

Taxation Notes

Deduction of Tax from Dividends and Annual Payments

A preference dividend or annual payment made on or after April 6, 1955, but before the Budget resolution will have had tax deducted at 9s. in the £. Many payments made since Budget day, April 19, have also had tax deducted at that rate

because the vouchers and warrants had been prepared already. The over-deduction is to be made good in the next payment.

In the case of an Ordinary dividend, no adjustment is permitted: the net amount paid must be grossed up as if tax had been deducted at 8s. 6d.

Illustration

Dividends declared in April and November.

	Preference Dividend 6% fixed	Participating Preference dividend at 6% plus participating 3% at end of year	Ordinary Dividend
Gross amount paid April 18, 1955	£400		
Less tax at 9/-	180	at 9/-	£400
	220	180	180
	—	220	220
	—	—	—
Gross amount paid November 18, 1955	£400		
Less tax at 8/-	160	at 8/- on £400 = £160	£1,000
	240	at 8/6 on £200 = 85	425
	—	245	—
	—	355	575
	—	—	—
Gross amounts to be returned by the recipients	£800		
	—	£1,000	£795 $\times \frac{40}{33}$
	—	—	— £1,382 12 1

replaces the former index completely and will be much easier to use because the main headings are now set in bold type. The supplementary table of statutes and the supplementary table of cases have also been brought up-to-date.

Release No. 24, dated April 21, contains a full report of the Budget resolutions so far as affecting income tax. The entire text of the Finance Bill, with a commentary and cross-references to the various Sections of the Income Tax Act affected and to the appropriate paragraphs of Konstan's *Income Tax*, is also included. A table shows the effect of the proposed new rates and allowances on the incomes of individuals of various personal circumstances compared with last year's position.

Wife's Earned Income

The maximum earned income of a wife to attract full reliefs is £643, unless the husband's income is such as to restrict the earned income relief on the wife's income.

Illustration

Wife's earned income	..	£643
Earned income relief	..	£143
Personal	..	140
	—	283
		£360
£60 at 2/3	..	£6 15 0
150 at 4/9	..	35 12 6
150 at 6/9	..	50 12 6
	—	£93 0 0

The Budget—Correction

We regret that in the hurry to prepare the article on *The Budget and the Finance Bill* for insertion in our last issue (on page 176) the marginal relief in the computation of age relief was transposed between the two years. The figures should be as follows:

	1955-56 £ s. d.	1954-55 £ s. d.
Tax payable before adjusting for margin	81 10 6	83 12 0
Add: Margin £100 × 3/5	60 0 0	£100 × 5/8 62 10 0
Tax payable	£141 10 6	£146 2 0

Age Relief

The marginal age relief for 1955-56, where all the income is unearned,

Illustrations:

ceases to be of advantage at about £912 for a single person and £860 for a married couple.

	Total income ..	Personal allowance ..	Without age relief	
			Single £	Married £
			912	860
			140	240
			£772	£620
First £360	£93 0 0	£360
Balance £412 at 8/6		175 2 0	260
			£268 2 0	£203 10 0

	Total income ..	Margin ..	With age relief	
			Single £	Married £
			912	860
			312	260
			£600	£600
Age relief 2/9ths	£134	£134
Personal	140	240
	—		274	374
			£326	£226
£60 at 2/3	£6 15 0	£60
150 at 4/9	35 12 6	150
116 at 6/9	39 3 0	16
312 × 3/5ths	187 4 0	260 × 3/5ths 156 0 0
			£268 14 6	£203 15 6

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.LITT.

Income Tax

Deduction of profits tax in computing profits of trade or business—Principal and subsidiary company—Notice by principal company that for profits tax income of subsidiary company to be treated as if its own—Reimbursement to principal company by subsidiary company of profits tax—Notice whereby profits tax payable by subsidiary is to be treated for income tax as if paid by it and as a reduction for income tax of profits tax payable by principal company—Amount of reimbursement deductible in computing profits of subsidiary for income tax purposes—Finance Act, 1937, Sections

22, 25—Finance Act, 1947, Section 38(3).

Gahan v. Chloride Batteries Ltd. (C.A. February 18, 1955, T.R.41) was the subject of a note in our issue of February last at page 66, and that and the present note should be read together. Curious features in the case are that in none of the judgments is the accounts period or the year of assessment mentioned, whilst from the judgment of Upjohn, J., it was impossible to learn why the case arose. This, however, was remedied in the Court of Appeal, where it was made clear that it arose out of the income tax provisions relating to new businesses. As Evershed, M.R.,



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Fifth Annual TAXATION Conference

B R I G H T O N

CHAIRMAN:
Mr RONALD STAPLES

INTRODUCTION

Arrangements have been made to hold the Fifth Annual Taxation Conference at Brighton during the period Friday, October 14th, until Monday, October 17th, at which distinguished speakers will give addresses on the various phases of the Law, Practice and Incidence of taxation, and opportunities will be given for questions.

Organized by *Taxation*, the Conference is open to all members of the accountancy and legal professions, and to those executives responsible for taxation in the industrial and commercial fields. The previous Conferences have demonstrated the value of these unique opportunities to hear the leading experts in the various phases of the subject.

Preparations for the Conference, including special attractions for the ladies, are well in hand, and those attending can be assured of a warm welcome at Brighton.

A nominal contribution of one guinea per person towards the Conference expenses will be asked from those who attend the Conference. No further charge whatsoever will be made, and all social functions, including tours etc., will be free. Those who attend, therefore, will only be required to pay for accommodation and travel.

British Railways have promised to co-operate in running a special train or special reserved accommodation from Victoria Station, and it would help the organizers if those wishing to take advantage of these special facilities would give an indication on the form on page four.

Owing to the extremely large response to preliminary announcements, it is suggested that those who wish to attend should complete the application form on page four without delay, and so avoid disappointment, as hotel accommodation is limited.

PROGRAMME

All business sessions will be held in The Dome

2.30 p.m.

FRIDAY, OCTOBER 14th

SHORT INAUGURAL ADDRESS by the Conference Chairman Mr Ronald Staples, followed by a Civic Welcome by the Worshipful the Mayor of Brighton.

Presentation by the Worshipful the Mayor of Brighton, of the Ronald Staples Gold Medal, awarded for outstanding work at the November 1954 'Taxation' Diploma Examination.

It is hoped that lady visitors will attend this event.

ADDRESS by Mr Halford W. L. Reddish, F.C.A., on *The Effect of Taxation on Industry*.

Chairman: Sir Harold Gillett, M.C., F.C.A.

QUESTIONS.

COCKTAIL PARTY in the Royal Pavilion, given by the Editor of *Taxation*, to which all members and their ladies will be invited.

3.15-4.0 p.m.

4.0-4.30 p.m.

5.30-7.0 p.m.

9.45-12.30 p.m.
(break for refreshments
11.15-11.45 a.m.)

10.0-12.45 p.m.
2.15-3.0 p.m.

3.0-3.30 p.m.
3.45-4.30 p.m.

4.30-5.0 p.m.
8.0-8.30 p.m.
Reception
8.30-Midnight
Dancing

11.0 a.m.

10.15 a.m.

10.0-10.45 a.m.

10.45-11.15 a.m.
11.15-11.45 a.m.
11.45-12.30 p.m.

12.30-1.0 p.m.
11.0-12.30 p.m.

SATURDAY, OCTOBER 15th

MOCK APPEAL MEETING.

The Commissioners will hear cases of a wide and general interest, the subjects of which will be announced at a later date.

Commissioners: Mr W. Macfarlane Gray, F.A.C.C.A. (Chairman), Mr B. E. C. Ogle, M.A., LL.B., Mr H. F. Carpenter, C.B.E., F.S.A.A., F.C.I.S.

Clerk to the Commissioners: Mr R. C. Pascoe, J.P.

Counsel for the Appellant: A. N. Other.

Inspector: Mr E. H. Gordon.

Accountant: Mr John Margetts, A.C.A.

FOR THE LADIES. A coach tour of some of the beauty spots of Sussex.

ADDRESS by Mr C. N. Beattie, LL.B., on *Family Businesses - Taxation and Death Duties*.

Chairman: Mr Robert A. Allan, D.S.O., O.B.E.

QUESTIONS.

ADDRESS by Mr F. Heyworth Talbot, Q.C., on *The Finance Act, 1955, and Recent Case Law*.

Chairman: Mr E. Cassleton Elliott, C.B.E., F.S.A.A.

QUESTIONS.

CIVIC RECEPTION AND DANCE to be given by the Worshipful the Mayor and the Mayoress of Brighton in the Royal Pavilion.

SUNDAY, OCTOBER 16th

A CHURCH SERVICE for Conference members and their ladies at St Peter's Parish Church, Brighton, conducted by the Rev. Canon D. H. Booth.

A special eighteen-hole medal round GOLF COMPETITION for the *Taxation* Challenge Cup will take place on the course of the Brighton & Hove Golf Club, Dyke Road, Brighton. Entry forms, which are obtainable from the Conference Secretary, must be completed well in advance.

MONDAY, OCTOBER 17th

ADDRESS by Mr Douglas A. Clarke, LL.B., F.C.A., on *Schedule D - Disallowable Items*.

Chairman: Mr Garfield G. Goult, F.C.A.

QUESTIONS.

Break for Refreshments.

A MOCK INTERVIEW with the Inland Revenue Inquiry Branch, regarding the Settlement of a Back Duty Case.

Inspector: Mr H. A. R. J. Wilson, F.C.A., F.S.A.A.

Accountant: Mr Percy F. Hughes, A.S.A.A.

Client: Mr L. C. Winterton, J.P., F.C.A.

QUESTIONS.

FOR THE LADIES. A Mannequin Parade given by Messrs Peter Robinson Ltd in the Concert Hall, West Pier.

WHO'S WHO

Mr Robert A. Allen, D.S.O., O.B.E.

Member of Parliament for South Paddington 1951-1955. Assistant Whip 1953-1955. General Manager *The Investors' Chronicle* and *The Banker*. Parliamentary Chairman Dock and Harbour Authorities Association. Author.

Mr C. N. Beattie, LL.B.

Barrister at Law, lecturer and author.

The Rev. Canon D. H. Booth

Vicar of St Peter's Parish Church, Brighton.

Mr H. F. Carpenter, C.B.E., F.S.A.A., F.C.I.S.

Member of the Council and Past-President of The Chartered Institute of Secretaries. Member of the Organization Review Committee of British Electricity Authority.

Mr Douglas A. Clarke, LL.B., F.C.A.

Member of the Council of The Institute of Chartered Accountants. Senior partner Pannell Crewdson & Hardy.

Mr E. Cassleton Elliott, C.B.E., F.S.A.A.

Member of the Council and Past-President of The Society of Incorporated Accountants and Honorary Member of the Commonwealth Institute of Accountants. Senior partner Cassleton Elliott & Co.

Sir Harold Gillett, M.C., F.C.A.

Alderman of the City of London, Sheriff of City of London 1952-53. Member of the Council of The Institute of Chartered Accountants in England and Wales. Deputy Chairman London Chamber of Commerce. Senior partner Dixon, Wilson, Tubbs & Gillett.

Mr E. H. Gordon

Barrister-at-Law. H.M. Senior Principal Inspector of Taxes, Appeals Section, Inland Revenue.

Mr Garfield G. Goult, F.C.A.

Member of the Taxation Research Committee of The Institute of Chartered Accountants in England and Wales. Senior partner Ensor Son & Goult.

Mr W. Macfarlane Gray, F.A.C.C.A.

President of The Association of Certified and Corporate Accountants. Senior partner Macfarlane Gray & Co.

Mr Percy F. Hughes, A.S.A.A., F.C.I.S.

Assistant Editor of *Taxation*. Director and Secretary, Taxation Publishing Co Ltd.

Mr John Margetts, A.C.A.

Partner, Peat, Marwick, Mitchell & Co.

Mr B. E. C. Ogle, M.A., LL.B.

Solicitor of the Supreme Court and member of the Council of the Law Society. Senior partner Theodore Goddard & Co.

Mr R. C. Pascoe, J.P.

Solicitor of the Supreme Court, Clerk to the Commissioners of Income Tax, Brighton 1 district. Partner Howlett & Clarke.

Mr Halford W. L. Reddish, F.C.A.

Chairman and Managing Director, The Rugby Portland Cement Co Ltd; Charles Nelson & Co Ltd; Gillingham Portland Cement Co Ltd. Chairman, Trussed Concrete Steel Co Ltd. Director, Granada Theatres Ltd; Scottish Union and National Insurance Co (London board).

Mr Ronald Staples

Founder Editor, *Taxation*.

Mr F. Heyworth Talbot, Q.C.

One of Her Majesty's Counsel. Formerly H.M. Inspector of Taxes.

Mr H. A. R. J. Wilson, F.C.A., F.S.A.A.

Writer and editor of books on accountancy subjects. Director of well-known coaching establishment for professional examinations. Partner Wilson, Bigg & Co.

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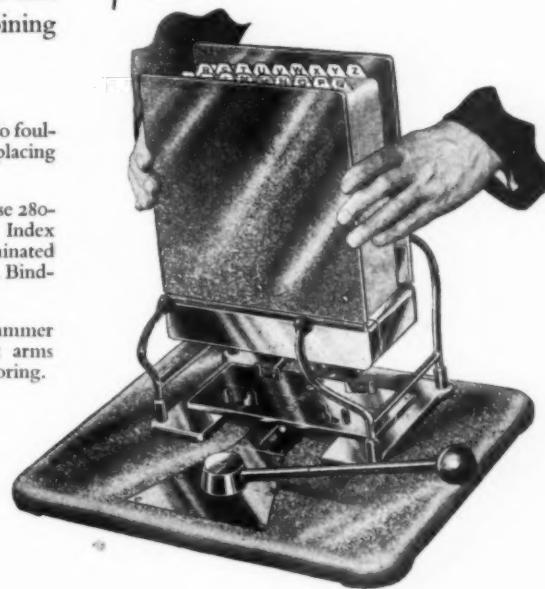
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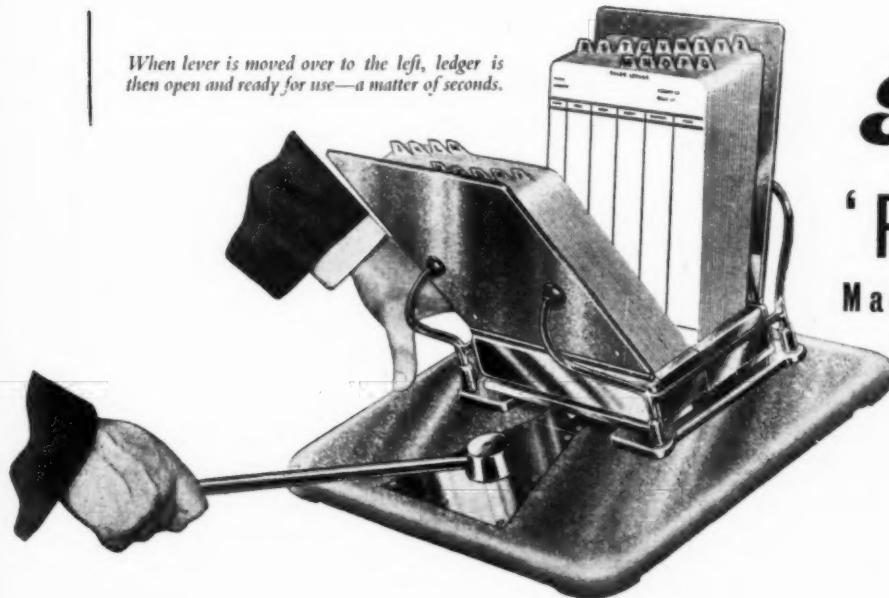
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said in the course of his judgment:

It so happens that if the contentions of the respondent company are right, it can . . . get a very considerable advantage by way of income tax reliefs, and that circumstance arises mainly from the fact that the subsidiary company . . . began its business on January 1, 1950, and beyond question, for income tax purposes, deductions of this kind . . . serve a very useful purpose extending over more than two years during the infancy of such a company.

But for the notice under Section 22, the profits tax payable by the principal company would have been £132,000 whilst, owing to distribution to the principal company, that payable by the subsidiary would have been £191,000. As the result of the notice the tax payable by the principal company was £209,000, i.e. £77,000 more. For the respondent company, it was contended that the amount of profits tax payable by the principal company by virtue of the notice under Section 22 was the whole £209,000 although the claim was restricted to £191,000, the amount which would have been payable by the subsidiary had the notice not been given; and that, by virtue of Section 38(3), the respondent company was entitled to reimburse its principal this amount, with the consequences indicated above. The Special Commissioners had accepted this view and had been upheld by Upjohn, J., who had declared that there could be only one answer to the question what was "the profits tax payable by virtue of the notice." It was the whole tax; and he made the point that the limit of reimbursement by the subsidiary had to be determined not by income tax law but by the general law. Nevertheless, a unanimous Court of Appeal disagreed and reversed his decision, leave to appeal to the Lords being given.

It will be noted that Upjohn, J., had referred to "the profits tax payable by virtue of the notice" whilst the Section refers to "profits tax" without the "the." In his judgment, Evershed, M.R., mentioned this as a small point in favour of his own interpretation; but more substantial, he said, was his view that as a matter of strict English the amount of profits tax payable by virtue of the notice was the difference between what would have been payable had notice not been given and what actually had to be paid, i.e. £77,000. The £132,000 was, he held, an obligation independent of the notice; and the word "payable" was

used, and not "paid." Looking at the wording of Section 22 from another angle, he said that the notice was one by which an added burden was imposed upon the principal and there was no option by which the principal could place on the subsidiary the whole profits tax of both, although the taxpayer's argument was that the subsequent option under Section 38(3) had the effect of transferring to the subsidiary for income tax purposes the profits tax obligation of both put together.

On the assumption that the taxpayer was right, Evershed, M.R., referred to the strange position which could arise where there was more than one subsidiary and notices had been given in respect of two or three. Jenkins and Morris, L.J.J., agreed with his conclusions, each of them stressing the importance of the words "by virtue of the notice having been given." Neither Section 22 nor Section 38 being a charging Section, there would seem to be room for the interpretation of verbal ambiguity by reference to what must have been the intention of the legislature, and in the present instance Lord Greene's "business man" would seem to be as good a judge of this as any one else. There would seem to be little doubt what his view would be.

Income Tax

Undistributed income of company—Company in which the public is substantially interested—Shares in company held by brothers—One brother holding 74 per cent of voting power and the other holding 26 per cent, approximately—Smaller holding purchased for full value—Whether company one in which public substantially interested—Income Tax Ordinance, 1940, Section 21—Income Tax (Amendment) Ordinance, 1943, Section 5—Finance Act 1922, Section 21.

Uganda Commissioner of Income Tax v. Bjordal (Privy Council, January 24, 1955, T.R. 17) was a case in which the Privy Council had to deal with a legally interesting problem. In 1940, amongst other imports from the United Kingdom by the Uganda Protectorate was the income tax, very much on the United Kingdom model. Included were the special provisions imposing tax upon the undistributed income of companies conforming to a certain type which had been initiated here by Section 21 of the Finance Act, 1922. As has frequently been the case, the imported provisions were subsequently modified to suit local conditions; and by Section 5(1) of the

Uganda Protectorate Income Tax (Amendment) Ordinance, 1943, if any company resident in the Protectorate had not by the end of six months from the end of its last accounting period distributed not less than 60 per cent of its income as defined by statute, increased by any tax payable thereon, the Commissioner of Income Tax

unless he is satisfied that, having regard to losses previously incurred by the company or to the smallness of the profits made, the payment of a dividend or a larger dividend would be unreasonable

could by notice order that the undistributed portion of 60 per cent should be deemed to have been distributed proportionately amongst the shareholders. Nevertheless, by a proviso, this was not to be applicable to any company in which "the public" was "substantially interested", a term defined by Section 5(2) of the Ordinance as follows:

. . . if shares of the company (not being shares of the company entitled to a fixed rate of dividend, whether with or without a further right to participate in profits) carrying not less than 25 per cent of the voting power have been allotted unconditionally to, or acquired unconditionally by, and are held at the end of the said period by, *the public* . . . and if any such shares have in the course of such period been, in fact, freely transferable by the holders to other members of *the public* . . .

The issue in this case was whether the conditions in the above proviso were satisfied. The company was Bjordal Mines Ltd., and at the relevant time 12,007 shares had been issued. They carried equal voting rights but were divided into 7,632 A shares not transferable without the consent of the directors and 4,375 B shares freely transferable. The respondent held 7,632 A and 1,249 B shares, whilst his brother, S. H. Bjordal, held 3,121 B shares, so that respondent had 73.96 per cent of the voting power and his brother 25.99 per cent. The latter, who was a director, had acquired his shares for full value. It was not suggested that he was a nominee; and Mr. L. M. D. de Silva, giving the decision of the Privy Council, said that there was nothing to show that he was acting in concert with the respondent either as shareholder or as director. The question was whether respondent's brother was included in "the public", a term not defined in the Ordinance. (Nor, as the present writer would observe, is it defined in Section 256(5) of the Income Tax Act, 1952, which may be referred to for comparison.) But in *Tatem Steam Navigation Co. Ltd. v. C.I.R.*, (1941, 2 K.B. 194; 20 A.T.C. 57; 24 T.C. 57),

it had, his lordship said, been understood to mean:

all persons other than the controlling individual or individuals.

There was, he added, no reference in the existing statute law of Uganda to "control," although the original Section 21 of the Ordinance had prior to its repeal contained a reference in terms to it.

Mr. de Silva said it was necessary first to decide which member or group possessed a controlling interest. The remaining members of the company were "the public." For the Commissioner, it had been contended that only those who commanded 75 per cent or more of the voting power possessed it and that only the two brothers were in that position. For the respondent, however, it had been argued that the requisite percentage was 51 and their lordships, he said, agreed with this contention. A member or group holding this percentage could carry ordinary resolutions and although without support it would not enable the holder(s) to carry a special resolution it would enable them to resist one which did not accord with his or their wishes. If the argument for the appellant were correct, his lordship pointed out that the only case within the proviso above-mentioned was one where the controlling group or individual possessed exactly 75 per cent of the voting power. In the present case, their lordships, he said, were of opinion that the respondent had the controlling interest, although if any of the other shareholders had been shown to have been acting in concert with him, the controlling interest would have been held by the group and the other shareholders would have been "the public." The fact that S. H. Bjordal was a brother of the respondent was not, in their lordships' opinion, by itself sufficient for grouping relatives together, and the *Tatem* case was referred to in support.

Their lordships, Mr. de Silva said, expressed no opinion on the questions which would arise where the requisite percentage was held not by a single individual but only by a group or by overlapping groups of individuals. S. H. Bjordal was a director of the company; but their lordships could find no reason why shareholders ceased to be members of "the public" because they had become directors.

Sur-tax

Undistributed income of company—Direction that the income of the company should for sur-tax purposes be deemed the income of its members—Appeal

against direction—Onus of proof—Whether right and duty of Crown or appellant to begin and adduce evidence—Income Tax Act, 1918, Section 137—Finance Act, 1922, Section 21, Schedule I—Finance Act, 1941, Section 35.

C.I.R. v. Transport Economy Ltd. (C.A. February 21, 1955, T.R. 53) was noted in our issue of April, 1955, at page 146. Upjohn, J., had held that in the event of a direction being made by the Special Commissioners as the assessing authority that the income of a company should be deemed to be the income of its members and of any appeal to the Special Commissioners as the appellate authority it was the duty of the Crown to open the case and adduce its evidence in support of the direction. He had also refused to send the case back to the the Special Commissioners as had been done in the case of *Dixon and Gaunt v. C.I.R.* (1947, 26 A.T.C. 106; 29 T.C. 289). In the Court of Appeal, in the circumstances of the case, the Special Commissioners having discharged the direction, their lordships were unanimous in dismissing the appeal, Evershed, M.R., giving the only judgment. He said that Upjohn, J., had held that the onus of proof in the case lay upon the Crown and it was, therefore, its duty to begin and adduce its evidence in support of the direction, but that:

In my judgment we ought not to go into the matter in this case. As I have already said, the admitted facts, that is to say, the facts which were admitted before the Special Commissioners, are not, as the Crown conceded, sufficient to sustain the direction, and, as I have also said, the Crown have said that in this case they did not, and do not, propose to call evidence. So that, whatever would be the result of our considering this question which has been presented to us, the taxpayer must win this case in the end: because Mr. Millard Tucker [counsel for the company] says he would not, in any circumstances, call any evidence. The Crown have said that they cannot or will not do so . . .

and, so, having regard to the statements in the stated Case that the facts placed before the Special Commissioners were not by themselves sufficient for them to determine whether or not the direction should have been made, he held that there was no issue left outstanding. In these circumstances, he considered it was the duty of the Court

not to express any view one way or the other upon the point upon which Upjohn, J., gave his judgment, but merely to say that the appeal cannot be sustained and to dismiss it accordingly.

There is often difficulty in considering

reports of cases where only the judgments are given. In the writer's previous note he suggested that it was difficult to see any distinction in principle between the case of *Dixon and Gaunt* and the present case. In that case, however, there was no concession that the facts before the Commissioners were by themselves insufficient to sustain the direction but, on the refusal of the appellants to begin, the direction had been affirmed. The order of the Court was to send the case back to the Special Commissioners to hear the appeal recognising where the burden of proof lay. It is worthy of note that this order was for an obvious reason the subject of spirited discussion between Atkinson, J., and counsel for the appellants, who, in the circumstances of the case, protested strongly against being left with what might well prove to be only a Pyrrhic victory.

Tax Cases— Advance Notes

By H. MAJOR ALLEN

HOUSE OF LORDS.

C.I.R. v. Universal Grinding Wheel Co. Ltd. May 4, 1955.

The facts in this case, and the decision of the Court of Appeal, were reported in ACCOUNTANCY for May, 1954, page 187.

The House of Lords (Lord Morton dissenting) dismissed the Crown's appeal.

CHANCERY DIVISION (DANCKWERTS, J.). Rosette Franks Ltd. v. Dick. May 3, 1955.

Facts.—The company sold ladies' clothing by retail. In 1945, a purchaser of a dress costing some £30 was drawing a cheque in payment when she was asked by a member of the staff to make the cheque payable to bearer, which she did. On reflection she became suspicious and informed the Revenue. Additional assessments were accordingly made upon the company for the years 1941-42 to 1945-46, while first assessments in estimated figures were made in due course for the years 1946-47 to 1952-53. Evidence was given before the General Commissioners in 1953 (on appeal against the assessments for twelve

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years) which showed *inter alia* that the cheque had been cashed by the managing director and that the proceeds were not credited in the company's books. An accountant of the Inland Revenue Enquiry Branch had examined those books but had been unable to trace the purchase of the gown in payment for which the cheque was drawn. No other irregularity in the company's books was

proved. The Commissioners came to the conclusion that the company's accounts could not be relied upon to show the true profits, but adjourned the appeal to give the company an opportunity of proving that the assessments were excessive. At the adjourned hearing the managing director and his wife did not appear owing to ill health and, after hearing further evidence from the

company's secretary and accountant, the Commissioners confirmed the assessments.

Decision.—Held, that, although the Commissioners were at fault in not stating in their Case whether or not they had accepted or rejected the evidence given before them, nevertheless there was evidence which justified their conclusions. Appeal dismissed.

The Student's Tax Columns

MORE ABOUT LOSS CLAIMS

THE CONTRAST BETWEEN Sections 142 and 342 of the Income Tax Act, 1952, is most marked in the case of a partnership. Under Section 142, the loss which arose in the basis year becomes the computed loss of the year of assessment for which the claim is made, and it has to be divided among the partners as they divide profits and losses in the year of assessment, not as they divided in the year of account. Under Section 342, however, the loss is divisible as profits and losses were divided in the year of account.

Illustration.—A., B. and C., in partnership, sustained a loss of £1,200 in the year to March 31, 1955. Profits and losses were divided equally until that date, when A. went into partial retirement, and it was agreed that B. and C. should draw salaries of £600 and £400 respectively, the balance of profits being divided in the ratio 1 : 2 : 2. C.'s wife had a business which made a profit of £1,800 in the year to December 31, 1954. A. claimed relief under Section 341 in 1954–55. B. decided to carry his share of loss forward under Section 342. C. claimed under Section 142.

For Sections 341 and 342, the loss is divided equally, i.e. £400 each. For Section 142, however, it must be divided as losses are shared in the year 1955–56, viz.:

	A.	B.	C.
Loss	£1,200		
Salaries	1,000	£600	£400
Gross loss	2,200	£440	880
Shares in loss for S.142		440	280
	—	—	480

C. can therefore set £480 against the assessment on his wife's business £1,800, reducing it to £1,320. This set-off is done before deducting capital allowances, whereas a loss under Section 342 is set off after capital allowances.

A somewhat similar anomaly arises where a person with

an existing business starts another which makes a loss in its first period. The relief obtainable under Section 142 may exceed the loss made, but under Section 342 it can only be given to the extent that the loss has not been relieved under any provision of the Income Tax Acts.

Illustration.—A. started a business on June 6, 1953. His accounts were made up to June 5, 1954, and showed a loss of £1,200. For Section 142 purposes, the loss must be computed according to "new business" rules:

1953–54 Actual	$\frac{10}{12} \times £1,200$	= £1,000
1954–55 First 12 months		= £1,200
1955–56 Previous year		= £1,200.

Relief against assessments on another business could therefore amount to £3,400 although the loss is only £1,200. Under Section 342 only £1,200 would be available, and then only if relief had not been given under Section 341 or Section 142.

If accounts are made up for a broken period, the following situation arises:

Illustration.—Business commenced June 1, 1953. Accounts to December 31, 1953, loss £900. Accounts year to December 31, 1954, profit £600.

For Section 142:	Assessment
1953–54 Actual	$= -£900 + \frac{3}{12} \times £600$
	= -£900 + £158 = loss £742
1954–55 First 12 months	$= -£900 + \frac{5}{12} \times £600$
	= -£900 + £250 = loss £650
1955–56 Previous year	£600

For Section 342, however, the position is that in 1953–54, £158 of the loss was relieved in getting rid of that amount of profit, and in 1954–55, £250 of the loss was similarly relieved. Only £492 loss could therefore be deducted from the 1955–56 assessment.

The Month in the City

Pressure on Credit

Our May issue carried the story up to the morrow of the Budget and, therefore, to some days after the announcement of the general election date. Neither of these events seemed at that time to have affected equities, but it was evident that some pressure was being exerted to make Bank Rate effective, and weakness was developing in fixed interest securities. The newspaper strike was just ending and it remained to be seen whether wider publicity for some recent developments would affect the market. Whether for this reason or for others, the general tendency for security prices to fall was accentuated, and with the gradual seeping out of the news that the banks had been substantial sellers of the Funds all fixed interest securities continued to sag. One reason at least for these sales, apart from a general policy of the authorities not to make things easy, was the fact that companies found it more profitable to take Treasury bills and also "shorts" than to leave money on deposit with the banks. Thus deposits tended to fall and with them liquid assets, while, owing in part to the absence of new issues, demands for advances rose more than is usual at this season. In the five weeks to April 20, the clearing banks sold £63 million of investments, presumably mostly shorts, to finance £43 million of additional advances. There is some reason to suppose that this trend has continued, with a disposition on the part of the banks to curtail advances rather than sell investments as the life of the securities to be sold lengthens and the loss thereon increases. At the same time some of the supply of longer dated Funds to buyers, such as insurance companies and pension funds, appears to have been provided by sales by the "Departments."

Other Factors

Meanwhile, pressure was also being applied by the traditional method of keeping the discount market short. In the month to May 6 the bid price at the weekly tender dropped by 1s. and the rate paid by the Exchequer rose by 3s. 10½d. per cent. One might have supposed that the outside demand for Treasury bills would keep the rate down, but this demand was small compared with the total issue, although

large as measured against the additional demand for advances. With the resumption of full newspaper supplies a number of large company results were released, and most of these were sufficiently favourable to help a modest revival in demand. Further, financial circles were convinced that the election would result in a Conservative victory and were in consequence disinclined to write down industrial equities. The relative strength of this section was helped by the absence of any new issues in this field. Stock market business tended to recover in volume, at least as judged by the number of bargains received, and well before the middle of the month there was some rally in industrial Ordinary shares and in gold mines. The position to date, as reflected in the indices compiled by the *Financial Times*, is as follows: between April 20 and May 19, Government securities down from 99.79 to 95.70; fixed interest, from 110.29 to 108.01; industrial Ordinary from 189.3 to 194.6; gold mines from 85.00 to 85.19.

New Issues

It had been rumoured for some time that a further steel offer was to be made before the election, and equity offers of *Hadfields* and *Bairds and Scottish Steel* had been mentioned as well as prior charges offers of *Brown Bayley* and *English Steel Corporation*. In the event the last proved to be the correct guess and on Thursday, May 12, there were offered at par £5 million 4½ per cent. debenture stock 1974-79 and an equal amount of 5½ per cent. redeemable Preference shares of £1 each. Both were payable 25 per cent. on application and the remainder on June 8, and both receive a full six months' dividend on June 30, so that there was a substantial "turn" in the price. The cover for the debenture interest is excellent and the terms of the Preference offer seemed very attractive, especially when one remembers that the ruling rate of interest is now above rather than below the probable long-term average. Before this offer had been digested there was announced the "placing" of £12 million 4½ per cent. second mortgage debenture stock 1972-82 of the *Dunlop Rubber Company* at 97½. Application has been made for permission to deal and some of the stock will be on offer, but it was

evidently felt that the amount was too large for the conditions prevailing just before the election. The money is required to finance the general expansion of business. It seems scarcely probable that any further large operation will be attempted until the result of the election is known. All issues were over-subscribed and went to a premium.

I.C.F.C. Earnings

The *Industrial and Commercial Finance Corporation* will conclude its first decade of activity sometime this autumn, and in the report for the year to March 31, 1955, the chairman, Lord Piercy, is able to suggest that a useful instrument has been created. Total loans outstanding rose further on the year, as did the volume of new business, but the latter is still well below the level of 1950-52. However, repayments are going ahead well now and some profitable realisations have helped the 1954-55 earnings to a new high. This enables the company to double its appropriation to reserve at £500,000, while the rise in values, which yielded some of the profit, also makes it possible to transfer £200,000 from provision against investment to reserve. Out of current profit an equal amount of £200,000 has been reserved for contingencies, some of which seem unlikely to arise. Thanks to plough-backs it has not been necessary to increase the loan capital of the concern by more than £250,000 to £20 million, while the called-up share capital remains at £7,500,000, on which the dividend of 5 per cent. is repeated. In commenting on the present position Lord Piercy expressed the hope that credit pressure will not check the recent trend to increased fixed capital investment in industry. The experience of I.C.F.C. suggests that a larger proportion of total new finance has gone into new buildings and fixed plant than in earlier years, and this is borne out by figures of industrial buildings completed. New branches have been or are about to be opened at Leeds and Leicester and the Edinburgh office is doing more business, despite considerable competition north of the border.

Company Results

The month of May has produced the usual crop of reports by the giants of British industry and their near relations. If a generalisation may be permitted, on figures which have differed substantially from one another, it is fair to say that these showed much increased profits and higher dividends against a year ago, but that some of the rises were proportionately less than those recorded

by other concerns earlier in the year. Further, there was some talk of ever increasing competition and here and there a mention of the probable ill

effects of rising costs not fully shared by competitors overseas. It would, however, not be true to say that there appears to be any widespread expecta-

tion of an early decline in either turnover or profitability. It is rather a disinclination to make forecasts of a future which is more obscure than it was.

Points From Published Accounts

The Auditor Explains

THE *Hide and Co.* accounts were approved after a lengthy and at times undignified meeting. The financial Press could not avoid commenting on several of the footnotes to the accounts. A very unusual development was that the chairman called upon members of the auditing firms of the parent and a subsidiary to address the meeting before he made his speech: it is of general interest to examine their remarks in detail.

Note 12 to the accounts said:

In the absence of certain records we have been unable to satisfy ourselves as to the accuracy of the stock figures, or the reasons for a substantial part of the loss of £60,146 as shown by the accounts.

The auditor, who spoke into a microphone and was greeted with applause, said he had not seen any of the erroneous interpretations by Press commentators, but that it was certainly desirable that if there were any they should be corrected so that the full implications of the auditors' qualifications might be understood, and that no inference should be read into them which was not intended. He told the meeting that it was not normally an auditor's duty to refer specifically to the loss made by one subsidiary company in a group any more than it was his duty to refer specifically to the profit made by another. He continued:

In the case of the subsidiary which we referred to in this note we found that during the year there were serious stock losses which could not be accounted for. We were informed that there had, in fact, been defalcations by an employee, that that employee had been prosecuted and had received a sentence of imprisonment, but the records which would enable us to calculate the extent of the defalcations were missing.

Note 13 stated:

The auditors' report of another subsidiary is qualified as follows:— "The company's freehold property was sold on June 9, 1953, for £72,000 on the basis of

the purchaser granting to the company a ninety-nine year full-repairing lease at a rental of £4,750 per annum. The property was resold by the purchaser for £86,000, completion taking place on July 21, 1953."

This note was highly unusual, in that shareholders might have asked themselves what business it was of theirs, or the auditors, that the property had been re-sold. The senior partner of the firm responsible for this footnote said:

The qualification for which my firm is responsible is contained in Note 13 . . . I am aware, Mr. Chairman, that certain inferences have been drawn from that statement of fact. We are not responsible for inferences that may be drawn from it. The statement I want to make is this, referring to that inference, that if my firm had been in possession of evidence that a connection existed between the purchaser of the property and the group or its directors we should have referred to this in our report.

This statement was greeted with applause, although it hardly explained the reason for the footnote, and the chairman began his address. He pointed to the need for secrecy while property transactions were being negotiated, and told the meeting that the property was sold in December, 1952, the purchase price being paid in June, 1953. He continued:

It was not until January of this year that I was informed that there was some question arising on this particular subject . . . That the purchaser of the company's property was able subsequently to re-sell at a profit of £14,000 in no way diminishes the satisfaction I feel for all the benefit that the company has derived from this matter. I would like to emphasise at this point that although the property was sold in December, 1952, legal formalities were not completed until June 9, 1953. The note is completely untrue.

At a later stage the auditor whose firm was responsible for Note 13 said:

A statement has been made that the chairman only received notification of

our intention to raise this query in January of this year, and I don't dispute that at all. But in fairness to my firm I should say that our first letter on the subject addressed to the group was on October 13, 1954. And in December, 1954, we notified the directors as to the terms of our qualification. Finally, he has criticised the auditors and the form of their qualification. May I assure him that that is a matter which must be left to the discretion of the auditors, and in this case we took very careful legal advice before our qualification was framed.

The chairman said he saw no reason why the audited accounts for the year to January 31 last should not be in shareholders' hands at least by July next. (It will be appreciated that very out-of-date accounts were being considered at the meeting.) At a later stage a shareholder asked the senior partner of the parent company's auditors to give an assurance to this effect. The auditor said of the accounts being considered by the meeting:

We submitted to the board of *Hide* the draft accounts of the group early in August, coupled with a note of the various queries arising thereon and an intimation that if they would deal with the replies as expeditiously as possible we should be able to complete the accounts . . . If the accounts are not in your hands by the end of July it will not be our fault.

The auditors' report for the year to January 31, 1954, was dated April 5, 1955.

The auditors undoubtedly made an excellent impression by the firmness with which they spoke, and the chairman was wise to enlist their services. It was perhaps a pity that he did not include in his report the news that the employee responsible for the losses had been prosecuted and sentenced to imprisonment and at the same time give details of the property sale. If that had been done then the City Editor of the *Sunday Express* would not, when his newspaper resumed publication, have made incorrect inferences, in which he was not alone. The moral to be drawn seems to be that in similar circumstances auditors should be prepared to answer shareholders' questions or alternatively endeavour to arrange that questions which might be asked on the accounts are answered in the directors' report or chairman's speech.

Publications

The Farm as a Business. A handbook of standards and statistics for use in farm management advisory work. By the Ministry of Agriculture and Fisheries. Pp. iii+107. (H.M. Stationery Office: 4s. net.)

THIS HANDBOOK HAS been in use by the *National Agricultural Advisory Service* for rather more than a year. Anyone interested in farm accounting must be grateful to the Ministry for making the publication available to the public.

The book marks a change in emphasis of the work of the N.A.A.S.—a movement away from advisory work on technical problems of farming towards a more general interest in management and the securing of advances in profitability. Indeed, particularly by means of a number of very useful tables setting out standards for such items as animals per acre and man-hours per job, the publication is designed to assist advisory officers and others in giving concrete advice on management to farmers.

Accountants interested in agricultural costs will not always agree with the agricultural economists, whose approach is embodied in this handbook. But all farm accountants should read the work, if only to note the plain facts concerning agricultural accounts—and to blush with shame for the backwardness of the profession, whether from indifference, ignorance or inefficiency, in the field of farm accounting and costing. A.E.

Balance Sheets—How to Read and Understand Them. By the late Philip Tovey. Revised by F. Clive de Paula, T.D., A.C.A., F.C.W.A. Pp. viii+126. (Sir Isaac Pitman & Sons Ltd.: 15s. net.)

THIS BOOK WAS first published in 1920 and the present edition is the fourth. A new edition was necessary to bring the text and examples into line with the Companies Act, 1948.

The author's preface to the first edition started with the words "this little book is not intended for skilled accountants or professional financiers . . ." That is still very true for the fourth edition. The book does give the uninitiated some knowledge of balance sheets and the terminology used but simplicity has been achieved at the cost of errors in accounting presentation and

in the narrative. Any publication that will instruct the lay investor how to interpret balance sheets and profit and loss accounts is to be commended but any such work, although seemingly simple of achievement, requires careful preparation.

This is not a book for the accountancy or legal student, for many of the comments and examples run counter to what is now accepted practice. A surprising omission is any comment on consolidated statements. As the book was revised to incorporate the accounting provisions of the Companies Act of 1948, one would expect at least a few pages on this major disclosure reform. It is surprising to read (page 35) "But bankers do not advance money without security . . ." A large part of bank advances are unsecured and under the Companies Act of 1948 it is obligatory to state if an advance is secured. Example 19 seems to omit certain important factors: no depreciation is provided against house property and investments are included at values in excess of their realisable worth. The same example includes perhaps one of the longest descriptions to be found for a "reserve" against bad debts, etc.

The book is of 126 pages of which fifty are appendices concerned with the Companies Act of 1948. T.K.

The Death Duties. By Robert Dymond and Reginald K. Johns, LL.B. Twelfth edition. Pp. cviii+1,100. (Solicitors' Law Stationery Society, Ltd.: £4 15s. net.)

THE DEATH DUTIES require reference to the Finance Acts concerned, expert opinion on their interpretation, and the details of all important Court cases on many difficult problems. It is most convenient to have all three together in the one book, even though the book necessarily becomes large and rather expensive. However, *Dymond and Johns* will be usable for a very long time, especially since supplements on new legislation and on new Court decisions are to be issued from time to time.

With a book of this size a reviewer must choose some of the thorniest problems, examining how they have been dealt with in detail. The choice falls on the infamous Sections 46-49 of the Finance Act, 1940, and the Seventh Schedule of the Act. These deal with the legislature's efforts to bring into charge that proportion of any property or assets transferred to certain companies, which the benefits accruing to the deceased from the company bear to the

net income of the company. These provisions are extremely complicated, and were described by a Law Lord as "of unrivalled complexity and difficulty." Yet their treatment in this book is lucid and comprehensive.

The authors have followed the advice of a reviewer of their previous edition—how gratifying it is to find that some authors, at least, take reviewers' constructive suggestions seriously—and have included a preliminary outline on benefits from companies. The present reviewer heartily endorses the general idea of providing an explanation, put as simply as possible, of particularly difficult legislation. It is quite useless to attempt to plunge into all the numerous side-tracks unless the main direction of the road itself is first known. Principles come before detail—the authors place them so and for this are to be highly commended.

Another sticky problem, which the reviewer considered very well covered, is dealt within Chapter XIV—valuation of shares in limited companies: open market value, and shares in controlled companies: assets value. This topic produces perhaps the accountant's worst headache in his estate duty work. The alternative methods are clearly set out in the book. But as so much emphasis is placed on the comparison of yields in similar businesses, would it not be well if the chapter contained a list of expected yields on capital from various types of businesses? The Estate Duty Office must have such a list itself or at least must be consistent in suggesting the proper yield to be expected from, say, the tanning industry. Yet an accountant is unlikely to have more than one tanner-client.

This is a good book, particularly for following the statutes and the case law and to obtain the background of legislation from the historical resumés. The excellent index should rapidly lead the reader to a speedy settlement of a particular problem that may be confronting him.

P.A.S.

Books Received

The Financial and Statistical Digest of South Africa. By David Shrand, B.COM., A.S.A.A., C.A.(S.A.). Pp. vii+147. (Juta & Co. Ltd., P.O. Box 30, Cape Town: 25s. net.)

Report of Proceedings, Golden Jubilee Celebrations, 1954. Pp. 71. (Association of Certified and Corporate Accountants, 22 Bedford Square, London, W.C.1.)

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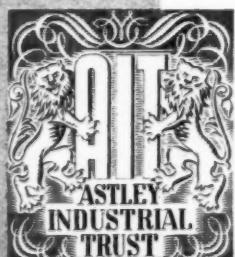
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Readers' Points and Queries

Income Tax: Credit Traders and Hire Purchase

Reader's Query.—I was greatly interested in your article on pages 143-4 of the April issue, as I am at present engaged on the audit of a mail order credit trader. The company is not a hire purchase concern, but it does add a 5 per cent. charge to cover the additional work of the monthly repayments; and the bad debts on one section amount to almost 20 per cent. of the sales.

It is appreciated that the profit is earned at once, but the company has been endeavouring, without success, to get the Revenue authorities to agree to spread the 5 per cent. charge over the period of the sale. This also appears to be the viewpoint of the writer of your article.

The company also feels that some reserve should be allowed against bad debts owing to the large amount involved, but it is hard to arrive at any specific reserve as debts are often "bad" from the start, but this is not obvious for some considerable period, and the size of the business makes it difficult to examine every card in detail.

It would be of great assistance if you could inform us of any ruling, or of any case where the Inspector has agreed the spreading of the "house charge", or where the Revenue, possibly by concession, have agreed to a reserve for bad debts.

Reply.—As it is admitted that the profit is earned at once, there can be no hope of having it spread as suggested, nor is there any hope of getting an allowance for bad debts until they are known to be bad.

Computation of Profits—Capital Allowances

Reader's Query.—Referring to the Student's Tax Columns article on "Computation of Profits" in the April issue of ACCOUNTANCY, could you kindly enlighten me on the position arising when the second and third years of a business are claimed to be assessed on "actual" basis? The article states that consideration should be given to the effect on capital allowances. Perhaps you would be good enough to say how the capital allowances are computed when the second and third years are calculated on "actual" basis and how they are computed when the second and third years are based on "12 months"

and "preceding year" basis respectively?

It would be appreciated if you could quote a brief example of each basis.

Reply.—The basis period is the accounting period which forms the basis of assessment. The normal basis period for the second year of assessment is therefore twelve months from the starting date; that for the third year of assessment, the previous year. Basis periods will overlap, and the period common to two basis periods is included in the first of the two only. If the "actual" basis is claimed for the second and third years of assessment, the basis periods become the twelve months to April 5 in each of these years.

Illustration: Business started December 6, 1952, making up accounts to December 5 in each year. New plant was bought on December 6, 1952, £4,000; March 18, 1953, £2,000; April 20, 1953, £3,000; January 2, 1954, £5,000; and February 14, 1955, £1,000

The basic rate of wear and tear allowances is 10 per cent., i.e. 12½ per cent. actual.

Normal basis	
Basis period	
1952-53 6/12/52—5/4/53	£6,000
Annual allowance	£250
4/12ths × £750	£5,750
1953-54 (6/12/52—5/12/53 overlaps, therefore) 6/4/53—5/12/53	£3,000
Initial allowance	£600
Annual allowance	£1,094
—	£1,694
£7,056	£8,750
1954-55 6/12/52—5/12/53 all overlap	—
Annual allowance	£882
1955-56 6/12/53—5/12/54	£6,174
£5,000	£11,174
Initial allowance	£1,060
Annual allowance	£1,397
—	£2,397
1956-57 6/12/54—5/12/55	£8,777
£1,000	£9,777
Investment allowance	£200
Annual allowance	£1,222
—	£1,422
£8,555	£8,555

Claim on actual basis period	
1952-53 Unchanged	£6,000 £250
1953-54 6/4/53—5/4/54	£5,750 £8,000
Initial allowance	£1,600
Annual allowance	£1,719
—	£3,319
1954-55 6/4/54—5/4/55	£10,431 £1,000
Investment allowance	£200
Annual allowance	£1,429
—	£1,429
1955-56 6/12/53—5/12/54 (all overlap)	£1,629 £1,250
Annual allowance	—
—	£8,752
1956-57 (6/12/54—5/12/55 overlaps, therefore) 6/4/55—5/12/55	£1,094
Annual allowance	—
—	£7,658

Purchase of Business—Dividends Included in Price

Reader's Query.—A public company acquired a small private company, issuing to the shareholders in the private company, for each of their shares, two shares in the public company plus a final dividend of 12½ per cent. on the public company shares.

As this dividend formed an integral part of the "offer to purchase," may it be construed as a capital receipt and not as income, thereby avoiding income tax liability on the amount of the dividend?

Reply.—This is simply a sale of shares cum div. The dividend may be part of the bargain, but is still income. It is the cum div. price that is capital, just as in any other share purchase. Relief may be claimable for sur-tax under Section 238, Income Tax Act, 1952.

Guide to National Insurance

A booklet under the title *Everybody's Guide to National Insurance* has been compiled by the Ministry of Pensions and National Insurance and the Central Office of Information and is published by Her Majesty's Stationery Office (price 6d., by post 7½d.). The booklet is also obtainable through booksellers and at local pensions and national insurance offices.

Legal Notes

Contract and Tort— Dangerous Machinery

In John Summers and Sons Ltd. v. Frost [1955] 2 W.L.R. 825, the House of Lords held that Section 14(1) of the Factories Act, 1937, imposed an absolute obligation upon factory owners to fence dangerous machinery securely: it made no difference that it was impracticable to fence a particular machine if it was to be used at all. Under Section 60 of the Act the Minister had power to make regulations modifying this absolute obligation for any particular class of factory, but in the absence of any regulation a dangerous machine must not be used if it was impracticable to fence it securely.

Contract and Tort— Forged Transfers of Stock

Forgeries of stock transfers are fortunately rare, but they do occasionally occur, and the law on this subject has now been made much clearer by the decision of Harman, J., in **Welch v. Bank of England** [1955] 2 W.L.R. 757.

W. and M. were joint trustees of £10,000 4 per cent. Consols, and after M.'s death it was discovered that he had converted all this stock to his own use by means of seven forged transfers. The Bank registered all the transferees and W. now claimed that the Bank should restore her name to the register as the holder of the stock.

Harman, J., said that an action of this kind would lie without joining the transferees and there was no substance in the defence that as the interest of W. and M. in the stock was joint, she could have no better right than he had to complain. The main defence was that W. as the Bank's customer owed a duty of care and that she was disentitled to succeed because of her negligence. In the view of the Judge it was clear from the cases that no negligence could avail the Bank unless it amounted to conduct estopping W. or alternatively to ratification of the defaults of her co-trustee. Moreover, it would be essential for the Bank to prove that the loss was a direct result of the negligence. In this case it was not negligent of W. to allow M. to keep the stock certificates and it made no difference whether or not she had received from the Bank notices that the

transfers had been lodged for registration. However, that was not the end of the case: the proceeds of three transfers went without W.'s knowledge straight into a bank account over which she had no control, and it was held that the Bank was bound to restore her name to the register as the holder of the stocks concerned in these transactions. The proceeds of three other transfers went into the joint account of M. and W., and were then abstracted by M. through blank cheques which had been given to him by W. for the purpose of drawing income: it was held that in these cases W.'s negligence was the direct cause of her loss and that she could not recover. In the seventh case (actually the first in time) M. had attempted to pay the proceeds direct into his own bank account by forging W.'s signature as endorsement of the cheque: his bank queried the signature with W. but she was satisfied by the explanation put forward by M. It was held that she had authorised the money to be paid into M.'s private account and had thereby ratified the transaction.

The Bank was held to be entitled to an indemnity against stockbrokers and jobbers who had presented the transfers to them.

Contract and Tort— Trading with the Enemy

It is curious that, until the case of **Bevan v. Bevan** [1955] 2 W.L.R. 948 came recently before Sellers, J., the Courts had never had to consider the effect of war upon a separation agreement in a case where the wife resided in an enemy country. In 1931, B., a British subject, married and his wife, who was an Austrian by birth, acquired British nationality by her marriage. In 1932 the parties made a separation agreement under which they both agreed to live apart and B. agreed to pay his wife £9 a month during their joint lives. B. paid the instalments until June, 1939, but did not pay thereafter. Just before the outbreak of war the wife went to Austria and she remained there voluntarily throughout the war. She now sued for the arrears.

Sellers, J., held that at common law public policy did not require that this contract should terminate on the outbreak of war: it remained in existence and under the Trading with the Enemy Act, 1939, B. should have paid the instalments to the Custodian of Enemy Property. As he had not done so, the wife was entitled to recover the arrears.

Executorship Law and Trusts—

Form of Advertisement for Next-of-kin

In Re Aldhous [1955] 1 W.L.R. 459, an executor had issued an advertisement in the usual form that all "claimants against the estate" of the testatrix should notify him before a certain date. The testatrix had made no disposition of her residuary estate. The executor believed that she had no next-of-kin and, as he received no reply to the advertisement, he eventually paid over the residue to the Treasury. Subsequently a niece of the testatrix came on the scene and made a claim. It was held that the form of advertisement used was in law good notice not only to creditors of the estate but also to next-of-kin and that the executor was protected. Danckwerts, J., however, said that the wording used was unfortunate, and he suggested that in future different wording should be adopted so as to make it clear that beneficiaries as well as creditors should send in their claims.

It should be added that the Treasury did not insist upon their strict legal rights but agreed to pay over the money to the persons proved to be the next-of-kin.

Executorship Law and Trusts— Omissions in Wills

In Re Follett [1955] 1 W.L.R. 429, the Court of Appeal allowed an appeal against the decision of Roxburgh, J., which was noted in ACCOUNTANCY for February at page 78. The learned Judge had held that there were clearly omissions in the will which he was construing and that obviously the draftsman had meant to follow a well-known precedent but had left out several words by mistake; those words should be supplied, with the result that what appeared to be a general power of appointment was converted into a special power of appointment. The Court of Appeal said that the principle to be applied had been correctly stated in **Re Smith** [1948] Ch. 49: "Where it is clear on the face of a will that the testator has not accurately or completely expressed his meaning by the words he has used, and it is also clear what are the words which he has omitted, those words may be supplied in order to effectuate the intention, as collected from the context." In this case there were clearly omissions in the will, but it was not certain what had been left out: accordingly the words must be construed as they stood, and the donee must be taken to have a general power of appointment.

THE SOCIETY OF Incorporated Accountants

Seventieth Annual General Meeting

THE SEVENTIETH ANNUAL general meeting of the Society was held at Incorporated Accountants' Hall on May 17.

The President, Mr. Bertram Nelson, F.S.A.A., J.P., who was in the chair, moved the adoption of the annual report and accounts, and delivered the address which is printed on pages 206-208 of this issue.

The Vice-President, Sir Richard Yeabsley, C.B.E., F.S.A.A., seconded the adoption of the report and accounts.

Mr. P. F. Pierce, F.S.A.A. (Accrington) said that in the period from 1900-1935-1950 the total volume of trade and production had increased so much that the sole practitioners and small firms still had a very good chance, because they were probably auditing or giving their services to a much larger volume of trade than in the earlier years. He did not think that the day of the sole practitioner was finished, particularly if he could be guaranteed adequate remuneration for his skill.

Mr. Pierce had been a little alarmed at the President's remark that an accountancy practice based solely on auditing work might not be adequate to provide suitable salaries for the staff that they would wish to employ. He thought that was a shocking admission to have to make at this stage. He suggested they should at a very early date give consideration to much more accurate guidance in the matter of wages and fees from the Society. That could be achieved, first of all, by making a careful survey of present conditions, a careful comparison of the wages being paid in industry and in the profession, and collating the information to find what was happening now. He suggested that they get on with that as soon as possible. That was bound up, of course, with the registration of the profession. He would like to see the Council double and redouble its efforts with regard to registration. The average member who did not come into intimate contact with head office might get an impression of apathy and be discouraged.

He thought they should take every possible advantage of technological developments and undertake thorough research to put machine accounting and electronic accounting well to the fore. They might consult with the machine people to see if they could evolve a machine which would be useful for auditing and do away with a lot of the detailed checking and laborious work which the juniors had to do.

As there were no other speakers on the resolution for adoption of the report and accounts, the President put it to the meeting and it was carried.

Gold and Silver Medals

The President then presented the Gold and Silver Medals in respect of the Final Examinations held in 1954. He said he always attached importance to this item in their proceedings. He found that some thirteen of his colleagues on the Council had taken honours, and he hoped that those who had taken high places in these examinations would take a part also in the work of the Society in years to come.

The Gold Medal was awarded to Mr. John Desmond White, who was articled to Mr. Malpas of Messrs. Malpas, Simmons & Co., of Bournemouth. Mr. White passed the Final Examination in November, 1954, and was awarded the First Certificate of Merit, the First Prize, the Henry Morgan Memorial Prize and the Arthur E. Piggott Memorial Prize.

The Silver Medal was won by Mr. Michael Henry Wheaton of Port Talbot. He was originally articled to Mr. Plewman of Messrs. Keens, Shay, Keens & Co., of Bedford, and then his family removed to Wales and he was articled on transfer to Mr. G. Glanville Mullens of Messrs. Mullens & Robinson, Port Talbot. Mr. Wheaton passed the Final Examination in May, 1954, and was awarded the First Certificate of Merit and the First Prize.

The presentations were made amid applause.

Election of Members of Council

The President observed that, as stated in the report, eleven members of the Council retired under the provisions of Article 49, and nine of them were available for re-election. In addition, there were three members who were appointed to fill casual vacancies and had offered themselves for formal election at that meeting. He felt they would all wish that he should express their warmest thanks to the two retiring members of the Council, Mr. Faulks and Mr. Hannah. Mr. Faulks had served the Society as a member of the Council, and in particular as the Chairman of the Board of

Examiners, for many years. They would greatly miss him on the Council. Mr. Hannah told him that this was the 39th annual general meeting of the Society which he had attended. He rendered many services to the Society in Liverpool, where he was successively Secretary and President. He again was a colleague whom they would greatly miss and whose services would long be remembered.

The Vice-President seconded the resolution which was carried unanimously.

On the motion of Mr. E. Cassleton Elliott, F.S.A.A. (London) seconded by Mr. Richard A. Witty, F.S.A.A. (London) the re-election of the remaining nine members who retired under Article 49 was dealt with in one composite resolution. Their re-election was then carried unanimously, the motion being put to the meeting by Mr. E. Cassleton Elliott as the President's name was included in the list.

Mr. C. Percy Barrowcliff, F.S.A.A. (Middlesbrough) then proposed the election as a member of the Council of Mr. James Stanley Heaton, Fellow, Bradford, who was appointed as a member of the Council under the provisions of Article 48 to fill the vacancy caused by the death of Mr. T. H. Nicholson. Mr. Barrowcliff said that he warmly recommended Mr. Heaton to them. He was an active member of the Bradford District Society and its present President, and of course outside the District Society his name was very well known for his work on taxation. His age, his work for the Society and his personal achievements must commend him as a very worthy member of the Council.

Mr. F. Dean, F.S.A.A. (Bradford) seconded the proposition. He recalled that it was more than 25 years since the Bradford Society had a member who served on the Council: the late Mr. William Claridge, under whom he (Mr. Dean) served articles. During the intervening period they had waited patiently for a man to arise in their own District Society of the stature required, and their patience was rewarded when the President, on behalf of the Council, was able to tell them at the dinner in March of this year that Mr. James Heaton had been elected to fill the vacancy on the Council.

The resolution was put to the meeting and carried unanimously.

Sir Frederick Alban, C.B.E., F.S.A.A., J.P. (Cardiff) moved the election as a member of the Council of Mr. Frank Edward Price, Fellow, London, who was appointed under the provisions of Article 48 to fill the vacancy caused by the resignation of Mr. C. A. G. Hewson. Sir Frederick said that Mr. Price, who was an honours man of the Society and of the Institute of Municipal Treasurers, had carved out for himself a pre-eminent place as a specialist. By reason of his association with Parliamentary Committees and public bodies he was in a position to do outstanding service to the accountancy profession.

Mr. James A. Allen, F.S.A.A. (London) seconded the resolution, which was carried unanimously.

The Vice-President similarly moved the election to the Council of Mr. Spencer Laurence Pleasance, Fellow, London, who was appointed under the provisions of Article 48 to fill the vacancy caused by the resignation of Mr. W. H. Fox.

Mr. Pleasance, he said, was an Incorporated Accountant in industry and it was pleasing to welcome to the Council another member who thus served the profession. A great deal could be and was being done by members in industry to further the well-

being of the profession, and there were few, in fact none, whom he would consider better able to do that than Mr. Pleasance, who was his successor as Chairman of the London District Society. He knew Mr. Pleasance to be a man of great worth.

The resolution was seconded by **Mr. W. F. Edwards, F.S.A.A.** (London) and carried unanimously.

Mr. W. G. A. Russell, F.S.A.A. (Birmingham) moved that Mr. Harold Leslie Layton, Fellow, London, be elected as a member of the Council to fill the vacancy caused by the retirement of Mr. M. J. Faulks.

Mr. Russell said that Mr. Layton was a well-known practitioner in the City, and to any members present who did not know Mr. Layton he suggested that they should go to the Cambridge course this year, where he would be presenting one of the main papers.

Mr. A. C. Simmonds, F.S.A.A. (London) seconded.

The President in putting the resolution to the meeting confirmed Mr. Russell's advice on the advantages of coming to the Cambridge course, so that they might hear a very good paper from Mr. Layton.

The resolution was unanimously adopted.

Mr. R. Wilson Bartlett, D.L., F.S.A.A. (Newport, Mon.) proposed that Mr. Albert Blackburn, Fellow, Newport, Mon., be elected as a member of the Council to fill the vacancy caused by the retirement of Mr. A. Hannah.

He said he had known Mr. Blackburn for very many years and therefore he was not going to say anything whatever in support of the nomination. He would leave that to the seconder, Mr. Stanley, the President of the South Wales and Monmouthshire District Society.

Mr. W. W. Stanley, A.S.A.A. (Cardiff), in seconding the nomination, said he had known Mr. Blackburn for nearly 25 years: when he (Mr. Stanley) became a student of the Society Mr. Blackburn was the Secretary of the Newport Students' Section and a few years later joined that important steel producing concern, Whitehead Iron and Steel Company, and he had risen to the position of secretary and director. If the nomination was accepted he would make a contribution to the affairs and well-being of the Society. Mr. Stanley extended to Mr. Blackburn the good wishes of the South Wales and Monmouthshire District Committee.

The resolution was carried unanimously.

Mr. V. A. Bell, F.S.A.A. (Manchester) proposed and **Mr. R. H. Taylor, F.S.A.A.** (Bury St. Edmunds) seconded: "(i) that the fee of Mr. Stanley I. Wallis, Incorporated Accountant, Nottingham, who is willing to continue in office as auditor for a further year, be fixed at one hundred guineas for such year, travelling expenses to be paid in addition; (ii) that the fee of Mr. James A. Allen, Incorporated Accountant, London, who is willing to continue in office as auditor for a further year, be fixed at one hundred guineas for such year". Both coupled with the resolutions a warm vote of

thanks to Mr. Wallis and Mr. Allen for their services. The resolution was carried unanimously.

Extraordinary General Meeting

AN EXTRAORDINARY GENERAL meeting was held at the conclusion of the annual general meeting. The President, Mr. Bertram Nelson, again presided.

Membership Subscriptions

Mr. E. Cassleton Elliott moved the resolution for an increase in membership subscriptions. He emphasised that the Council made this recommendation only after the most searching examination of the Society's financial position. Over the past few years expenditure had outstripped income, and the Council had been increasingly concerned about the eventual result. A sub-committee was appointed and made a careful survey of existing expenditure, and their broad conclusion was that practically the only possible economy would be to cut down existing activities. This could only be considered a retrograde step, and would prevent the Society from continuing to maintain its appropriate place in the profession. The sub-committee found that existing expenditure was being properly and efficiently laid out for the activities approved by the Council.

The sub-committee had, however, to go still further and to take into account the cost of immediate future commitments as well as the natural increase in expenses arising from present activities. It was estimated that by 1958 expenditure would amount to £85,000 against estimated income of £73,000, leaving the deficiency of £12,000 a year referred to in the memorandum circulated to the members.

This £85,000 for estimated expenditure was a large figure. It could easily be falsified by later trends and events, but it was the best estimate that could be made at present for the guidance of members.

Last year the expenditure was £71,000, as shown by the published accounts. The anticipated further increase of £14,000 by 1958 was broadly accounted for as follows: establishment expenses, £1,000 (mainly extra rates and extra accommodation); administration expenses, £3,000 (mainly salaries); general expenses, £2,000 (additional cost of *List of Members* and representation abroad); educational research courses and library, £2,000; grants to Branches and District Societies, £3,000; contingencies, including Capel House, £3,000; making a total of £14,000.

Mr. Cassleton Elliott suggested that this was a realistic and modest assessment of the Society's commitments. Its educational work was becoming increasingly important: under that heading were included courses, research, library, as well as the excellent work carried on by the Branches and District Societies in the form of lectures and so

on. Provision had to be made for commitments at Capel House, which would be an important educational development. These items alone accounted for the sum of £8,000.

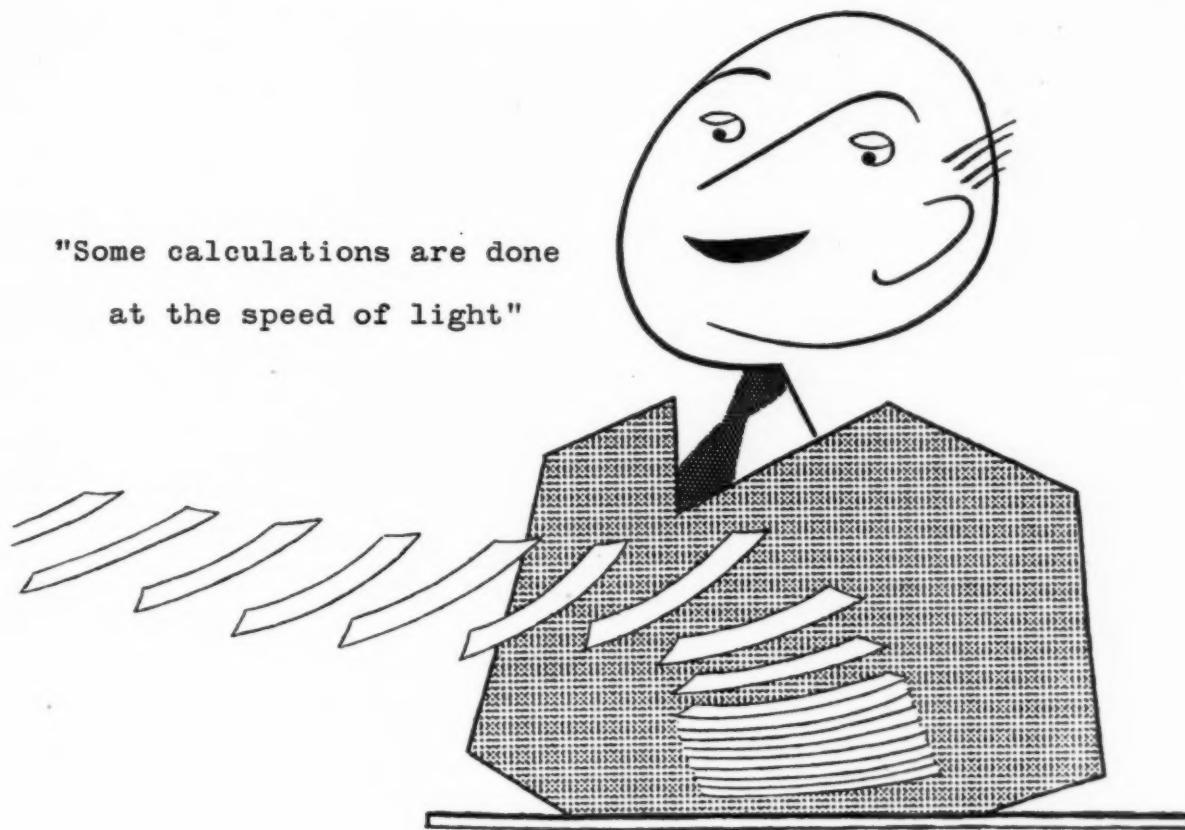
The Society's relations with accountancy bodies abroad were of increasing importance and were essential, quite apart from the fact that its qualification was recognised throughout the world. They were indeed fortunate to be able to entertain representative accountants from overseas in that wonderful Hall. A few days earlier a Council Member of the Transvaal Society of Accountants was welcomed there by the President and a few members of the Council. He was a South African born and bred, but he had said that the Society was very strong in South Africa and would go on from strength to strength.

All the Society's various activities—research, education, appointments department, entertaining and examinations, to mention but a few—entailed a vast amount of administrative work. The Council was fully satisfied that the expenditure on administration, including salaries, was at an economic level. Such things as rates and printing were to a large extent out of their control, but close attention had been given to economies in printing, even to the extent of the issue of the *List of Members* every second year instead of annually.

The estimated net income was expected to increase by more than £2,000 on the basis of the present rate of subscriptions. Subscriptions themselves would probably increase by about £5,000, but against that the credit on examinations would fall, probably by about £3,000, thus leaving a net increase of £2,000. With an estimated increase of £14,000 in expenditure, there was an increase of only £2,000 in income to set against it, leaving the gap of £12,000 to which he had already referred. The recommendation of the Council for increasing subscriptions would, if approved, give approximately that amount of extra income.

The Council did not take its responsibilities lightly on matters of finance, and through the Finance Committee as well as through a special standing sub-committee a firm control was maintained over all expenditure. There had been only one increase in membership subscriptions since before the war, and that was in 1947, when the increase was 50 per cent. Quite apart from the increased activities of the Society in post-war years, it would be appreciated that costs generally in this country had more than doubled since 1939. The proposed new subscription rates, if brought into effect, would still be below the general rise in costs.

The issue was a perfectly simple one. They must either increase the subscriptions or face a curtailment of some essential activities. He felt there could be no doubt that the general body of members would desire that the Society should go forward energetically, maintaining and extending its outstanding position in the accountancy



"Some calculations are done
at the speed of light"

explained the chief accountant.

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replied the chairman with satisfaction. 'But isn't 'the speed of light'
'a somewhat poetic way of putting it?'

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whether

your firm

*

This

staff

retirement

scheme

is made

to measure



. . . is large or

small

Many firms who consider the question of staff pension schemes hold back, either because their staff is too small, or because their numbers are large, or because for some other reason they consider such a scheme to be impracticable.

The National Savings Retirement Scheme is one, however, that should appeal instantly to both large and small firms, since it can be operated with a minimum of administration. The Scheme, in outline, depends upon the joint contribution of employer and employee, the employee's contribution being invested in National Savings certificates and/or Defence Bonds. The employer's contributions are paid into a trust fund opened for the purpose and managed by trustees appointed by employer and employee jointly. Of particular interest is the fact that for income tax purposes the employer's contribution will be treated as a trade expense and will not be counted as taxable remuneration of the employee.

Employers or their representatives who would like to know more about this Scheme are invited to write to the National Savings Committee, 1 Princes Gate, S.W.7 for leaflet S.L.164 (A) which gives full particulars.

• THE NATIONAL SAVINGS RETIREMENT SCHEME •

world. This being the case, they must face the increase in subscriptions as a necessity.

In submitting the increase to members the Council had tried to place the largest part of the burden where it could the more easily be borne.

On a personal note, he saw that for the five years ending December 31, 1954, the income exceeded expenditure by only £41. In 1954 there was a deficit of £182 before taking into account exceptional income. He had been Chairman of the Finance and General Purposes Committee ever since the President's uncle retired, and he had been unhappy at that position. There was no margin whatever. He had been a member of the Council for many years, and for many years Chairman of the Finance Committee, but the time was coming when he would have to retire, and he would like to be able to hand over the Chairmanship of the Finance Committee in a sound condition. That was his personal ambition and as such he put it to them that they should adopt the suggested increase in subscriptions. He therefore moved:

1. That the Articles of Association of the Society be altered in manner following, that is to say:—

(1) by inserting at the end of paragraph (b) of the Interpretation Clause at the beginning of the Articles of Association the words:—

"(including the Channel Islands and the Isle of Man)."

(2) by deleting that part of Article 22 commencing with the words "The following annual subscriptions" in the first line, and ending with the words "shall pay a subscription of £1 1s. 0d." in the last line of sub-paragraph (e) thereof and substituting therefor the following:—

"The following annual subscriptions shall as on and from the 1st January, 1956, be paid by members:

Members in Practice

(a) London members in practice, being Fellows, shall pay a subscription of £11 11s. 0d. or being Associates, shall pay a subscription of £8 8s. 0d.

(b) Provincial members in practice who are resident or in practice in the United Kingdom, being Fellows, shall pay a subscription of £9 19s. 6d., or being Associates, shall pay a subscription of £6 16s. 6d.

(c) Members in practice who are resident or in practice in the Republic of Ireland being Fellows, shall pay a subscription of £9 19s. 6d., or being Associates, shall pay a subscription of £6 16s. 6d.

(d) Members in practice who do not reside or practise in any part of the United Kingdom or the Republic of Ireland, being Fellows, shall pay a subscription of £2 2s. 0d., or being Associates shall pay a subscription of £1 1s. 0d.

Members not Practising

(e) Members resident in any part of the United Kingdom or the Republic of Ireland, who are not in practice, being Fellows, shall pay a subscription of

£8 8s. 0d., or being Associates, shall pay a subscription of £4 4s. 0d.

(f) Members resident out of the United Kingdom or the Republic of Ireland, who are not in practice, being Fellows, shall pay a subscription of £2 2s. 0d., or being Associates, shall pay a subscription of £1 1s. 0d."

Mr. Percy Toothill, F.S.A.A. (Sheffield) seconded the proposition.

Mr. E. W. Foggo, A.S.A.A. (London) said he wished to speak on behalf of the Associates not in practice. He realised that the proposed rates of increase were not all the same and that the Associates not in practice were to pay only one additional guinea. But after an Associate had paid income tax he paid his professional subscriptions, whereas the Fellow or Associate in practice would have them allowed. Therefore the increased rate of the Associate was entirely out of proportion.

He would also say a word of protest—well meant protest—on behalf of Associates, that perhaps the Society could do one or two more things for the Associates not in practice. The meeting that afternoon was a particular instance. If it had not been for the kindness of his employer, he would not have been able to come; he was sure there were quite a few employees in the same position.

He proposed that the resolution be amended in paragraph (e) by substituting £3 13s. 6d. for £4 4s. 0d.

The President asked Mr. Norton, as Solicitor to the Society, to advise whether it was in fact possible to take amendments.

Mr. Norton said he was afraid it was impossible for any amendment to be moved. This was an old question, and only fairly recently he took a further Opinion of joint Counsel. On account of the particular wording of Section 141(2) of the Companies Act, Counsel's opinion was quite definite that the only resolution which could be proposed was that of which notice has been given. Notice of the intention to propose the intended resolution would not have been given as required by Section 141(2) of the Companies Act.

The President said perhaps they could see the reason for that—that the 10,000 members not present that day would have had no notice of any amendment which might be proposed. Therefore he thought it was clear, as Mr. Norton had advised, that they could only discuss the resolutions as they stood. That might be desirable for another reason, that this was part of a comprehensive plan worked out by the Council, and, indeed, it would be dangerous to the whole of the arrangements if there were minor amendments which altered the character of the plan as a whole. Therefore in law, and he thought in wisdom also, the resolution should be discussed as a whole.

Mr. P. F. Pierce, F.S.A.A. (Accrington) said he believed that, in the case of commercial employment, if the conditions of employment were such that an employee must be a member of the Society or of an incorporated body, then he would get the

subscription allowed for income tax purposes.

The President said that was so.

Mr. Foggo said he appreciated that. It was pretty well known that as far as professional accountants in commercial firms were concerned, the majority of tax districts, in the first place did not allow the subscriptions, but eventually might do after argument. He believed it was not a general rule.

Mr. H. K. Greaves, F.S.A.A. (Swansea) asked whether the Council had any discretion to give honorary life membership to Associates of advanced age and retired from active participation in the profession. It would be a generous gesture if it could be conceded. He did not know to what extent the income from such members was material but they could probably afford to be generous.

The President replied that honorary membership was at present given only in exceptional cases. At the moment there were five honorary members. The Articles and Byelaws were at present being considered in relation to revisions, and this matter might well be included in the review.

Mr. J. D. Nightingale, A.S.A.A. (London) said that the increase in the subscriptions would start at January 1, 1956, so the Society would get a large increase in revenue next year.

It was wrong to bulldoze this measure through. Whilst a fairly explicit explanation could be given of where the increased expenditure might go, it did involve the whole policy of the Society; the ordinary members would not have any say in what was going to happen to the increased revenue. He thought that the measure should be deferred for a time.

Mr. W. L. Karamelli, O.B.E., F.S.A.A. (London) said that in view of the additional or higher subscription paid by practising members the Society should undertake the defence of members where they were sued by clients. He thought it should also help in cases of disputed fees. There was a lot to be said for the centralisation of an effort of that kind.

Mr. H. Loker, F.S.A.A., J.P. (Feltham, Middlesex) opposed the resolution. The income of the Society was something like £50,000, and that was no small amount. Many of the practitioners and those who were assisting them, and those in industry, could not get an increase in their fees or salaries just by saying: "Look, we must have some more." The proposed subscription for a Fellow, £11 11s. 0d., was more than in other bodies.

Mr. W. Keith, F.S.A.A. (Belfast) said that he considered it was not fair to agree to the substantial increase on the evidence before them. With all due respect, they ought to have more information. The full amount of money was not required for four years: why, therefore, put the full subscription on right away?

Mr. J. E. Spoors, F.S.A.A. (Newcastle-upon-Tyne) observed that there had been

nothing but opposition so far. But the subscriptions were not yet double the pre-war figures. He could not think of anything that had not doubled in price.

It would have been better if the lucid speech of the Chairman of the Finance Committee had been printed in some detail in the notice of the meeting. In his own district they said: "What on earth is the money going to be spent on?" If they had been told £3,000 on this and £2,000 on that, the members would have grumbled but would have accepted the position. He thought the Council was wise to try to build up a reserve fund, and he would hazard a guess that unless they had made some good provision for contingencies, in three years' time their estimates would be grossly too small.

Money spent on education and on District Societies was well spent. He suggested that they pass the resolution, not with acclamation—because one never gave money with acclamation—but realising that if members were in a good and learned Society, they should be able to afford even £11 11s. 0d. The London people said they did not know what they got. He thought they probably did not take advantage of their privileges. He suggested, regarding fees, that some of them should have more courage in feeling they were worth proper fees and charge them. He thought from experience that they would probably get them.

Mr. A. V. Hussey, F.S.A.A. (London) said that as members of the Society they felt proud of it. They had never begrimed the Council anything that it had previously asked within reason, but he felt that there had been a good reason that afternoon for fair comment. They had all had the report for quite a long time, and it did not contain one word of what was to be done with this extra fund: it merely told them it was to deal with future development. He wondered what their reactions as accountants would be if they were in any way party to a public subscription in respect of which the prospectus merely stated what sum of money was required but gave no indication what it was required for.

They had some accounts about Capel House. They did not convey much information. On the balance sheet there were some very large items of expenditure, like purchase of annuities. He asked for information on all this.

The President said he had considerable sympathy with the matter mentioned by Mr. Foggo, the subscription of Associates not in practice. Because of that difficulty the Council had recommended that their suggested increase should be only a guinea instead of two guineas. If they could do more to help Associates not in practice in the ways suggested, they would be pleased to do so.

Mr. Nightingirl mentioned that the proposed increase in subscriptions would, if carried, have effect in 1956, whereas the full increase in expenditure of £12,000 would not be reached until some later period. That was true, but it was most desirable in the

interests of the Society that they should build up their resources quite substantially during the next few years, not to an excessive figure, but to a point where they could pursue an active and progressive policy. That progressive policy Mr. Nightingirl rightly desired. The annual report was a statement of policy. It indicated the work they are doing and the work which they hoped would continue and extend.

Mr. Nightingirl asked what did members get out of the Society? The answer was, as always: exactly what they put in. The Society was the members. It was the work done by the members, by the Branches, by the District Societies, by the Committees and by the Council, that was put into the Society and that was precisely what they got out.

He would mention that the annual subscription paid to the Society included membership of the Branch or District Society.

Mr. Karamelli asked whether they could include, as part of the service to the members comprehended in the new subscription rates, defence fund facilities. His own impression was that there would be great difficulties. It would be very expensive indeed for the Society to guarantee to all its members that it would defend them against all actions and represent them in respect of suing for fees. The Council would have to think about it very carefully indeed before giving any undertaking that this could be done, and it might well be that it would not be in the interests of the Society or the public interest.

On the Capel House matter, there was a full explanation in the 1953 annual report. The position was that Colonel Medcalf's generous gift included the house, the contents and the investments of £27,000 which appeared in the balance sheet. During his lifetime and the lifetime of his sister Colonel Medcalf continued to occupy Capel House, in respect of which he paid the rent set out in the income and expenditure account. If Colonel Medcalf should not survive the necessary period, of course, estate duty would be payable, and it seemed desirable to insure against that possibility. If Mr. Hussey would look back at the 1953 report and continue on to the 1954 account he would find the explanation he rightly desired.

He thought the address which Mr. Cassleton Elliott made had helped very much in understanding why the Council felt firmly that the increase recommended was desirable and essential if the Society was to pursue a progressive policy. Having sat as a member of the Finance Committee, he felt that if the additional income suggested was not available, there would inevitably be a curtailment of essential activities. There has been only one increase (of only 50 per cent.) since pre-war days, and they might feel that that showed there must have been considerable economy.

The resolution was carried by a very large majority.

The President thanked the members who

had taken part in the discussion. It was right that the resolution should be fully discussed. They were grateful for the friendly spirit in which it had been done and welcomed the interest of the members.

Constitution of the Council

Sir Frederick Alban, in proposing the second resolution, said that before putting these proposals before the members the Council had had long consultation with Branches and District Societies, and had been guided by them. The fundamental alteration was in Article 40 (a). Under the existing Article the Council consisted of not more than 38 members (36 elected from amongst the United Kingdom and Irish membership and two members of the Scottish Branch elected by members of the Scottish Branch). It was now proposed, with the concurrence of the Council of the Scottish Branch, to modify the agreement entered into in 1899 (at the time of the amalgamation with the Scottish Institute of Accountants) whereby that Branch had the right itself to elect two members of the Council. In future, at least one of the 36 members elected to the Council in the ordinary way would be drawn from the Scottish Branch.

Under the proposals now under consideration the Council would consist of 36 elected members (including at least one member of the Scottish Branch) and those past Presidents of the Society who were willing to serve. In the present circumstances the Council would have a maximum membership of 43. Opportunities for service on the Council to younger members would be extended, whilst at the same time the experience of past Presidents would be retained. The remainder of the resolution dealt with consequential alterations.

The proposed addition to Article 47 sought to legislate for the unhappy (and he trusted, unlikely) circumstance in which a past President might be removed by members from office as a Council member. In such an event, since the past President was, so to speak, an *ex-officio* member and not an elected member, the vacancy caused by his removal could not be filled.

The proposed alteration in the position of the Scottish member or members of the Council necessitated a consequential amendment in Article 48 and the deletion of the existing Article 49 (b). Both related to appointments to the Council to fill casual vacancies. (The persons so appointed would of course continue to be required to offer themselves for formal election at the next following general meeting of the Society.) It was desirable that there should be no misunderstanding about the position of Scottish members of the Council and casual vacancies. Article 48 was subject to the over-riding provision of Article 40 (a) that there should at all times be at least one Scottish Council member.

It was proposed in the revised Article 49 that one-third of all the members of the Council (not excluding Scottish members as hitherto) should retire each year, but a

saving clause was added to ensure compliance with the provisions of Article 40 (a) as to there being always at least one Council member from Scotland.

He formally moved as a special resolution that Article 40 (a), 46, 47, 48 and 49 of the Articles of Association be altered in the manner set out in Resolution 2 of the Notice convening the Meeting:

2. That the Articles of Association of the Society be altered in manner following, that is to say:—

(1) by deleting the existing sub-paragraph (a) of Article 40 and substituting therefor the following new sub-paragraph to be numbered 40 (a):—

"40 (a). The Council shall consist of not more than 36 members elected from among the members of the Society in the United Kingdom and the Republic of Ireland, (of whom at least one shall be a member of the Scottish Branch of the Society) and in addition such of the Past Presidents of the Society as shall signify their willingness to serve."

(2) by deleting in the second line of Article 46 the words "Article 49 (b)" and substituting therefor the words "Articles 47 and 48."

(3) by inserting at the end of Article 47 the words:—

"Provided that in the case of the removal from office on the Council pursuant to the provisions of this Article of any Past President the resulting vacancy shall not be filled."

(4) by deleting the existing Article 48, and substituting therefor the following new Article to be numbered 48:—

"48. Subject to the provisions of Articles 46 and 47 the Council shall have power to fill any casual vacancy in their number but so that if the vacancy results from a member of the Scottish Branch of the Society ceasing to be a member of the Council such vacancy shall only be filled by the appointment of another member of such Branch and so that any person so appointed shall hold office only until the next following Ordinary General Meeting, and shall then be eligible for re-election."

(5) by deleting the existing Article 49 (a) and (b) and substituting therefor the following new Article to be numbered 49:—

"49. At the Ordinary General Meeting in every year one third of the members of the Council elected from among the members of the Society in the United Kingdom and the Republic of Ireland pursuant to Article 40 (a), or, if their number is not a multiple of three, then the number nearest to but not exceeding one third, shall retire from office. The members so to retire shall be those members who have been longest in office since their last election, and the meeting may re-elect them if qualified, or elect qualified members to fill their places, but any such election shall ensure that the provisions of Article 40 (a) as to at least one member being a member of the Scottish

Branch of the Society are complied with."

Mr. C. Percy Barrowcliff seconded the resolution.

Mr. A. T. Eaves (Manchester) referred to paragraph (2) of the section of the annual report dealing with this subject. "Whilst it is desirable that the Council should include membership drawn from as many Branches and Districts as possible, the fundamental principle should continue to be that the Society requires the services of the best men available, irrespective of geographical considerations."

The differences that existed between Manchester members and the Council at the two previous meetings had been resolved in a constitutional manner. Whilst they were still not quite in line with the Council and some District Societies in the method of nomination for Council membership set out in the paragraph, they were agreeable that it should be given a trial, for, after all, final control was in fact in members' hands. The important thing was to keep this aspect of the Society's affairs in view, for it was so easy for nominations to be submitted and accepted without question. One idea behind the principle was, no doubt, to secure the services on the Council of the most eminent members, but might not this be carried too far by the exclusion of the representation of humbler members of the Society, who surely should have some voice in its affairs and be able to express their difficulties and problems at Council level? There was also the risk in course of time of representation not being as widely based throughout the country as had hitherto been the case.

One suggestion previously made by them was that vacancies which arose within a certain period before the annual meeting should not be treated as casual vacancies, but should be filled at that meeting. He thought a Council member appointed directly by members at the annual meeting carried something with him into his office that otherwise would not be there. That idea had not been followed up, and he could see difficulties in bringing it into operation. He mentioned it, and the other point he had raised, to show that they were giving this aspect of the Society's affairs anxious thought, and intended to keep it under review. At the last meeting the President was kind enough to thank them for the way in which they had dealt with the matters in issue. He would take this opportunity of expressing appreciation to him and to the members of the Council for the same reason, and for the kind and helpful welcome they had given to their new member.

The resolution was put to the meeting and carried.

Suspension of Membership

Sir Frederick Alban proposed the resolution amending Article 32 to remove the existing doubt whether a suspended member

could be prevented from continuing to describe himself as an Incorporated Accountant during the period of suspension. The revised article also sought expressly to empower the Disciplinary Committee or the Council to institute and conduct disciplinary action in respect of any unprofessional conduct of a suspended member committed during the period of suspension.

3. That the Articles of Association of the Society be altered by inserting in Article 32 after the words "necessary or expedient" in the eighth line the words:—

"Any member who shall be suspended from the exercise of the rights and privileges of membership shall not be entitled, during the period of his suspension to use the designation "Incorporated Accountant" or the designatory letters denoting Fellowship or Associatehip (as the case may be) of the Society or in any other manner to hold himself out as a member of the Society. Any such suspension shall be without prejudice to the right of the Disciplinary Committee or the Council to take disciplinary action pursuant to the provisions of the Articles of Association against the member concerned during the period of suspension in the same manner as if the member had not been suspended."

Mr. R. Wilson Bartlett seconded the resolution, which was put to the meeting and carried.

List of Members

Sir Frederick Alban said the cost of printing the Society's *List of Members* was now so high that it was not practicable to contemplate annual publication. It was therefore expedient to amend Article 37 to regularise the powers of the Council in this connection. The proposed revision would empower the Council to publish future editions in such form, on such terms and at such intervals of time as the prevailing circumstances dictated. This also involved a minor amendment of Article 69(b).

The Council had already resolved that each member should receive a copy of the next edition without charge: but there might be some members (for example, those who were members of a firm in which there were a number of Incorporated Accountants) who might be prepared to forego their entitlement to a copy. That was a possibility which they felt should be explored.

He formally moved as a special resolution that Article 37 and Article 69(b) of the Articles of Association be altered in the manner set out in Resolution 4 in the Notice convening the Meeting:

4. That the Articles of Association of the Society be altered in manner following, that is to say:—

(1) by deleting the existing Article 37, and substituting therefor the following new Article, to be numbered 37:—

"37. The Council shall from time to time as they may deem expedient publish a List of Members, and may incorporate

therein such additional information (if any) as in the opinion of the Council is at any time necessary or desirable. The Council shall have a discretion to determine at any time and from time to time the terms on which copies may be made available to members."

(2) by deleting in the second line of subparagraph (b) of Article 69 the word "annual" before the words "list of members."

Mr. C. Percy Barrowcliff seconded the resolution.

Mr. N. A. Medlock, A.S.A.A. (Nottingham) asked whether, if it was not proposed to issue an annual *List of Members* would it be possible to publish an annual list of additions and deletions from the last published list?

The President replied that that matter was under consideration.

The resolution was carried.

Vote of Thanks to the President

Mr. R. A. Etheridge, F.S.A.A. (Southampton) proposed a hearty vote of thanks to the President for presiding at the meetings. He had a common interest with the President, because the South and Merseyside had a common stake in the maritime world. Another link not so well known was that a Past President of the South of England District Society had latterly been responsible for initiating the President into the art or mystery of water divining. He understood that the President had that gift, which would be one more to add to the many gifts he possessed.

There was bound at these meetings to be a certain amount of discussion. It was good for the Society, and could be carried through with the best possible spirit. He felt sure they would agree that that afternoon's proceedings had been presided over by the President with the dignity, courtesy and efficiency which they were accustomed to expect from him.

The vote of thanks was carried with acclamation and the President briefly replied.

Dinner at Incorporated Accountants' Hall

THE PRESIDENT, Mr. Bertram Nelson, and the Council of the Society of Incorporated Accountants, gave a dinner at Incorporated Accountants' Hall on May 16, on the eve of the annual general meeting. The guests included: The Rt. Hon. the Lord Chancellor, Viscount Kilmuir; The Rt. Hon. the Earl Jowitt; The Rt. Hon. Lord Layton; Professor Sir Harry Platt; Mr. Charles Norton (*Vice-President, Law Society*); Mr. C. B. McAlpine; Mr. B. W. Gould; Mr. G. E. Noyce (*Chairman, Public Accountants' and Auditors' Board; and South African (Eastern) Branch*); Mr. R. D. Meeser (*Chairman, South African*

(Northern) Branch); and the Presidents and Honorary Secretaries of Branch and District Societies of Incorporated Accountants.

Luncheon by the President

MR. BERTRAM NELSON, President of the Society of Incorporated Accountants, gave a luncheon to members of the Council of the Society on May 17 at the Connaught Rooms, London.

Luncheon to Mr. R. D. Meeser

THE PRESIDENT of the Society of Incorporated Accountants, Mr. Bertram Nelson, and members of the Council of the Society entertained to luncheon at Incorporated Accountants' Hall on May 10 Mr. R. D. Meeser, M.C., Chairman of the South African (Northern) Branch, Johannesburg. After the luncheon, which was informal, there was a useful discussion between Mr. Meeser and Council members on matters concerning Incorporated Accountants in South Africa.

The Independence of the Accountant

THE INCORPORATED ACCOUNTANTS' South of England District Society held a dinner at the Polygon Hotel, Southampton, on April 20. The chair was occupied by the President of the District Society, Mr. R. A. Etheridge, F.S.A.A., and the guests included the Mayor of Southampton (Alderman R. R. H. Hammond, O.B.E., J.P.); Mr. Bertram Nelson, F.S.A.A., J.P. (President of the Society of Incorporated Accountants) and Mr. I. A. F. Craig (Secretary); Mr. N. C. Downs, C.M.G. (Senior Principal Inspector of Taxes, Somerset House); His Honour Judge Tylor, Q.C.; Professor P. Ford, B.Sc. (ECON.), PH.D. (Head of the Department of Economics, University of Southampton); Canon H. D. Caesar (Rural Dean of Southampton); Mr. F. L. Freeman, C.B.E., M.A. (Chief Education Officer, Southampton, and President of the Southampton Rotary Club); and others representing the business and professional life of Southampton, Bournemouth and Portsmouth.

Mr. B. A. Apps, A.S.A.A. (Vice-President of the District Society) proposed the toast of "The County Borough of Southampton."

The Mayor of Southampton (Alderman R. R. H. Hammond, O.B.E., J.P.), in responding to the toast, expressed his

confidence in the future of the town, mentioning the growth of the industrial resources and the attractions to industry following the building of the new power station and the possibilities which the future held in the extension of atomic power. The advantage which the location of coal gave the Midlands and North was rapidly being neutralised, and industry was being attracted south. The members of the council were fully alive to these opportunities and would do all in their power to take advantage of the increased prosperity which they offered the town.

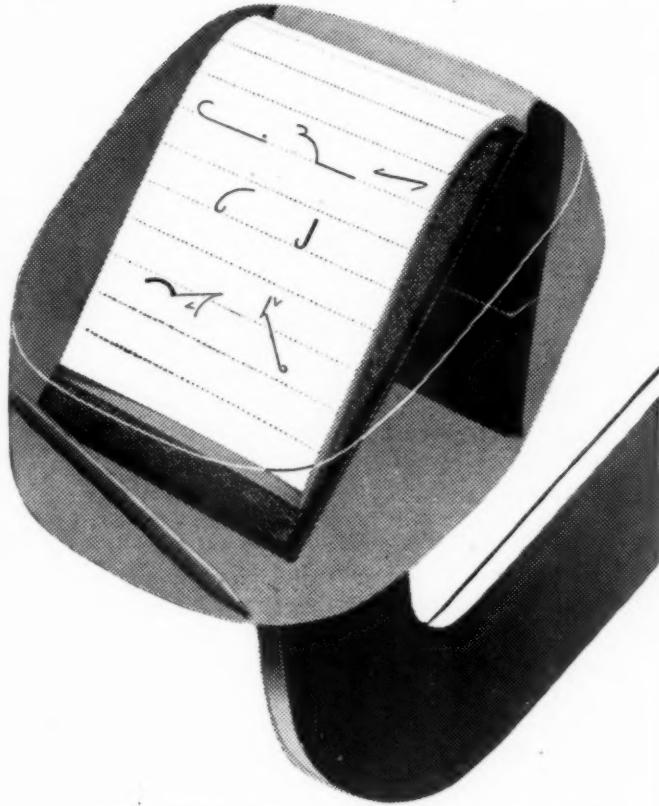
Mr. N. C. S. Down (Senior Principal Inspector of Taxes at Somerset House) proposed the toast of the Society of Incorporated Accountants. He stressed the added responsibilities on the accountancy profession, and the confidence which the Inland Revenue placed in accountants, which enabled complex taxation matters to be settled in a manner which—he had found in his experience in visiting and advising in other countries—was not possible abroad.

Mr. Bertram Nelson (President of the Society of Incorporated Accountants), responding to the toast, referred to the general relations between the Inland Revenue and the profession. In a complex civilisation, taxation could never be simple. It seemed probable, however, that there would be a second Finance Bill when the new Parliament met, and there were unusual opportunities for a Reform Bill. The report of the Royal Commission on the Taxation of Income might shortly be available and some of its recommendations might advantageously be included in the Bill. The standard of Parliamentary draftsmanship had fallen in the last twenty years; with more time available, greater clarity and better draftsmanship might be achieved. The Bill might be preceded by an Explanatory Memorandum, as had been the practice with Statutory Instruments during the war. The opportunity might be taken in this and successive Finance Bills to codify and clarify sections of taxation law (for example, this year on capital allowances), so that over a number of years the whole of taxation law might be modernised.

The relations between the Inland Revenue and the profession depended ultimately upon the trust which the Inland Revenue and the client were able to place in the independence and the integrity of the accountant. The Companies Act of 1948 had stressed the independence of the accountant and it was important that, in such matters as



Quick work—well done



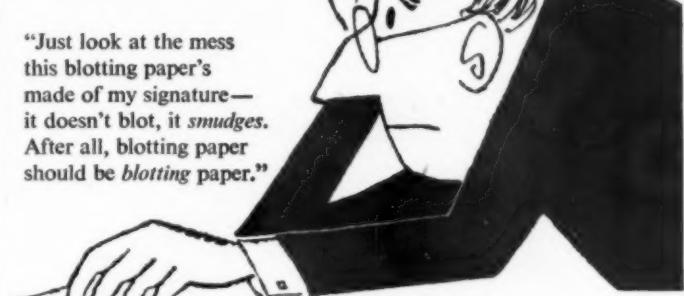
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stock valuation, the accountant should think for himself. He was under a perpetual retainer on behalf of truth and justice.

The doctrine of the independence of the accountant was, however, being advanced in one direction which was unhealthy, particularly for members in industry. It had been suggested that, on the analogy of Treasury methods, the accountant must be disassociated from the management team, so that he became an independent critic, concerned with adjudicating on but not with sponsoring policy. This view was based on a misunderstanding of the duties of an accountant. If the first principle of the profession was independence, the second was care for the client. It was only by maintaining a proper balance between these two principles that the profession could progress.

Mr. R. A. Etheridge, F.S.A.A. (President of the District Society) proposed the toast of the guests, on whose behalf Mr. F. L. Freeman, C.B.E., M.A., and Professor P. Ford, B.Sc. (ECON.), PH.D., responded.

Conference of District Societies

REPRESENTATIVES OF District Societies and Branches of the Society met the Council in a conference on May 18.

Benevolent Fund

WE PROPOSE to publish in our next issue a report of the proceedings at the annual general meeting of the Incorporated Accountants' Benevolent Fund, held on May 17.

Council Meetings

APRIL 27, 1955

Present: Mr. Bertram Nelson (President), Sir Richard Yeabsley (Vice-President), Mr. F. V. Arnold, Mr. Percy Barrowcliff, Mr. R. Wilson Bartlett, Mr. C. V. Best, Professor F. Sewell Bray, Mr. Andrew Brodie, Mr. W. F. Edwards, Mr. E. Cassleton Elliott, Mr. M. J. Faulks, Mr. Alexander Hannah, Mr. L. C. Hawkins, Mr. J. S. Heaton, Mr. J. A. Jackson, Mr. Hugh O. Johnson, Mr. C. Yates Lloyd, Mr. S. L. Pleasance, Mr. F. E. Price, Mr. F. A. Prior, Mr. W. G. A. Russell, Mr. R. E. Starkie, Mr. Joseph Stephenson, Mr. A. H. Walkey, Mr. Richard A. Witty.

The President (Mr. Bertram Nelson), who was in the chair, welcomed Mr. J. S. Heaton, Mr. S. L. Pleasance and Mr. F. E. Price upon taking their seats on the Council for the first time.

Reports of Committees

The Council received the minutes of recent meetings of the Finance and General Purposes Committee, Examination and Mem-

bership Committee, District Societies Committee, Applications Committee, Company Law Committee, Cambridge Course Committee, and Hall Committee.

Stamp-Martin Readerships

The Council authorised the award of readerships on terms and conditions to be determined in consultation with the academic electors to the Stamp-Martin Chair.

Revised Rules for District Societies

The Council approved revised rules for provincial District Societies.

Membership

The Council approved six applications for election to Fellowship, thirteen applications for admission to membership and one application for registration as a member in retirement.

Resignation

The resignation from January 1, 1956, of the following was reported: WELCH, Leonard Harry (Associate) Bristol.

Deaths

The Council received with regret a report of the deaths of the following members: BATLEY, John William (Associate) London; BYRNE, John Bernard Patrick, B.COM. (Associate) Hong Kong; HINDLEY, Reginald (Fellow) Manchester; SIMPSON, Frederick Alan (Associate) Bristol; WOODHEAD, Donald (Associate) Port Elizabeth, South Africa.

Public Trustee Office

A memorandum was approved for submission to the Committee of Enquiry into the Public Trustee Office.

MAY 17, 1955

A FURTHER MEETING of the Council was held after the Society's annual general meeting on May 17.

President and Vice-President

The Council unanimously re-elected Mr. Bertram Nelson as President and Sir Richard Yeabsley, C.B.E., as Vice-President of the Society.

Disciplinary Committee

The Disciplinary Committee was elected by ballot, in accordance with the Society's articles.

Special Council Meetings

APRIL 27, 1955

A report of the Disciplinary Committee dated March 9, 1955, was received relating to the circumstances in which Albert Hill of Walmer, Kent, was convicted at Maidstone Assizes on November 24, 1954, and was sentenced to two years' imprisonment after having pleaded guilty to nine charges (five charges of delivering, with intent to defraud, false accounts of a company to an Inspector of Taxes, and four charges of

making a false statement about the profits of the same company). The Council also took note that Albert Hill was ordered by the Court under Section 188(1) of the Companies Act, 1948, to be disqualified for a period of three years from being a director or from taking part in the management of a company.

After consideration of this report the Council unanimously resolved that the report of the Disciplinary Committee dated March 9, 1955, be adopted and that Albert Hill, Associate, Walmer, be and is hereby excluded from membership of the Society in accordance with the provisions of Article 35.

APRIL 27, 1955

A report of the Disciplinary Committee dated March 9, 1955, was received relating to the failure of William George Rose, London, despite many repeated requests, to produce the accounts of a deceased client; to his failure when called upon to offer an explanation; to his failure to obey a summons to appear before the Disciplinary Committee on March 9, 1955; and to his failure to acknowledge or reply to seven letters addressed to him by the Secretary.

After consideration of this report the Council unanimously resolved that the report of the Disciplinary Committee dated March 9 be adopted and that William George Rose, Associate, London, be and is hereby excluded from membership of the Society in accordance with the provisions of Article 35.

Events of the Month

June 8.—*Dublin:* Annual general meeting, Irish Branch, 34 Dame Street.

June 10.—*London:* "Economic and Accounting Concepts of Costs and their Relevance to Policy Decisions." Seminar opened by Mr. David Solomons, B.COM., A.C.A., Reader in Accountancy, London School of Economics and Political Science, and Professor-elect of Accounting, University of Bristol. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

June 14.—*Birmingham:* Luncheon. Speaker: Canon Ryan Green.

June 17.—*Manchester:* Annual general meeting, Manchester and District Society. At 6.30 p.m.

June 20.—*London:* London Students' Society annual general meeting. Incorporated Accountants' Hall, W.C.2, at 6 p.m.

June 27.—*London:* London District Society annual general meeting. Incorporated Accountants' Hall, W.C.2.

District Societies

Bradford

A REVISION COURSE was held during the week-end April 15 to 17. Lecturers were arranged to cover all the subjects of the Final and Intermediate Examinations. Lectures on accountancy subjects were given by Mr. V. S. Hockley, B.COM., C.A.;

on law subjects by Mr. J. Pickles, B.A., LL.B., and Mr. A. B. Mitchell, L.B.; and on Economics and General Financial Knowledge by Mr. A. E. Ilersic, M.Sc. (ECON.), B.COM., and Mr. J. Hall, M.Sc. (ECON.), B.COM.

The course was attended by over forty students, of whom fourteen were from the Yorkshire District Society. It was very successful, and it is hoped to co-operate further with the Yorkshire District Society and to hold future courses alternately in Leeds and Bradford.

Manchester

A SUCCESSFUL STUDENTS' course was held during the week-end April 15 to 18, at Hulme Hall, Manchester. It was attended by over 100 students, including some from the Isle of Man and from the District Societies of Liverpool, North Lancashire, North Staffordshire and Sheffield. Officers and members of the Manchester District Society were present, including the President, Mr. Victor A. Bell, and the Honorary Secretary, Mr. C. Yates Lloyd. Guests were Rev. J. Flitcroft, M.A. (Warden of Hulme Hall), Mr. Bertram Nelson (President of the Society of Incorporated Accountants), and the Presidents and Secretaries of the District Societies whose students participated.

The course was opened by Mr. Bertram Nelson. The programme of lectures covered most of the subjects of the Final and Intermediate Examinations. An informal concert was held on Saturday, and on Sunday morning the Rev. J. Flitcroft officiated at a well attended service in the chapel of Hulme Hall.

Votes of thanks were accorded to all who were responsible for organising the course, and particularly to Mr. C. Yates Lloyd, who carried out the duties of course administrator with efficiency and good humour.

It is intended that a similar course shall be held next year at Liverpool, where the hosts will be the Liverpool District Society.

South Wales and Monmouthshire

THE SPRING MEETING of the Golfing Society was held at the Southerndown Golf Club on April 26.

Mr. W. W. Stanley, F.S.A.A., President of the District Society, was elected Captain for the ensuing year and presented the prizes.

The results were as follows:

Morning Medal Round:

1st W. P. R. Peters, who won the Wilson Bartlett Cup and the Committee Cup.
2nd (equal) J. Nixon and T. R. Jones.
3rd (equal) W. J. Fooks and W. G. Evans.

Wallace Williams Challenge Shield was won by Newport.

Afternoon Stableford Foursomes:

1st T. R. Jones and L. Hulley;
2nd L. Godfrey and D. T. Redding.

F. J. Alban Trophy was won by W. P. R. Peters and W. G. Evans.

Personal Notes

Councillor E. Ewart Pearce, M.B.E., F.S.A.A., J.P., has been elected by the Cardiff City Council to be an Alderman. Alderman Pearce is a Past President of the Incorporated Accountants' South Wales and Monmouthshire District Society, and he has been a member of the Cardiff City Council since 1941.

Messrs. Metcalfe Collier, Hayward & Blake, London, W.I., and Reading, announce that they have opened a further branch office at Metward Chambers, 111 Cecil Road, Enfield.

Messrs. Arthur A. Crawley & Co., Chartered Accountants, of Ottawa, announce the opening of an office at 14 Howick Place, London, S.W.1.

Mr. J. C. Harrison, A.S.A.A., has taken up the appointment of Clerk/Accountant to the Shoreham Harbour Trustees.

Messrs. Tessier, Son and Randall, Incorporated Accountants, Purley, have taken into partnership Mr. J. K. Steward, A.C.A., A.S.A.A. The name of the firm is unchanged.

Mr. Frederick Fuller, A.S.A.A., practising at Ripley and Derby, has taken into partnership his managing clerk, Mr. Harold W. Worboys, A.S.A.A. The style of the practice is now Fuller, Worboys & Co., Incorporated Accountants.

Messrs. Turquand, Youngs & Co. announce that they have entered into partnership with Messrs. Duncum, Watkins, Ford & Co., of Colombo, who have acted as their agents there for many years. The name of the Colombo firm has been changed to Turquand, Youngs & Co.

Messrs. Keeling & Co., Incorporated Accountants, London, W.C.2., announce that they have admitted into partnership Mr. A. J. Knox, A.S.A.A., who has been a member of their staff for a number of years. The style of the firm remains unchanged.

Messrs. Frank Harrop & Co., Incorporated Accountants, Manchester, announce that Mr. Frank Harrop, F.S.A.A., has retired from the practice, which is being continued under the same firm name by Mr. Alfred Rouse, A.S.A.A., A.C.A., alone.

Mr. P. G. Pescud, A.S.A.A., has been appointed chief accountant to Edwards Motors (Doncaster) Ltd., Ralph Edwards & Son Ltd., and W. Mercer & Son Ltd., Doncaster.

Mr. Albert G. Willis, F.S.A.A., has taken Mr. R. G. Cowlan, A.S.A.A., into partnership in the firm of A. G. Willis & Co., Incorporated Accountants, London, E.7.

Messrs. F. G. B. Leyshon & Co., Merthyr Tydfil, announce that they have taken into partnership Mr. Elwyn Lewis, A.S.A.A. The style of the firm is unchanged.

Mr. J. E. Ibbotson, A.S.A.A., has been appointed chief accountant of Whessol Ltd., Darlington. Mr. Ibbotson is a member of

the Committee of the Incorporated Accountants' North of England District Society.

Messrs. Baddiel, Sleeman & Co., Incorporated Accountants, Swansea, have admitted to partnership Mr. J. G. Powell, A.S.A.A.

Removals

Messrs. Maw, Ellis, Warne & Co. announce that their offices are now at 4 Gray's Inn Square, Gray's Inn, London, W.C.1.

Mr. S. L. Isaacs, Chartered Accountant, advises a change of address to 1 Stanhope Avenue, Finchley, London, N.3.

Obituary

James Henry Allen

THE INCORPORATED ACCOUNTANTS' District Society of Northern Ireland has lost an active member and a past President by the death on January 22 last of Mr. J. H. Allen, F.S.A.A. He was 65 years of age.

Mr. Allen qualified as an Incorporated Accountant in 1916, and shortly after became a partner in Messrs. John Boyd & Co. Since 1922 he had been a partner in Messrs. Crawford & Allen, Belfast.

He served as Honorary Secretary and Treasurer of the District Society from 1920 to 1922, when he was elected a member of the Committee, and he held office as President in 1938-39. Although he resigned from the Committee in 1948, he retained an active interest in the affairs of the District Society until his death. He will long be remembered with gratitude.

Frederick Dubois

WE HAVE LEARNED with regret that Mr. Frederick Dubois, M.B.E., F.S.A.A., died on April 30, at the age of 73. He was senior partner in the firm of Dubois & Co., Incorporated Accountants, London, W.C.1.

Mr. Dubois became a member of the Society of Incorporated Accountants in 1912 and was advanced to Fellowship in 1921. The honour of M.B.E. was conferred upon him in 1920 in recognition of his services during World War I in the Ministry of Food, as Deputy Chief Accountant and later as Finance Director of the Oils and Fats Branch. The firm of Dubois & Co. was founded on his resumption of public practice after the war.

Horace Ward Haywood

WE REGRET TO report the death of Mr. H. Ward Haywood, F.S.A.A., on April 21, at the age of 53.

Mr. Haywood was articled to the late Mr. Osman Woodward Davies, F.S.A.A., and was admitted a member of the Society in 1927. He became a partner in the firm of O. W. Davies, Mumford & Co., Incorporated Accountants, Kidderminster, in 1945. The firm name was later changed to Mumford, Haywood and Crumpton.

Seventieth Annual Report

President and Vice-President

AT A MEETING of the Council held on May 26, Mr. Bertram Nelson, Fellow, Liverpool, was elected President of the Society for the ensuing year, and Sir Richard Yeabsley, C.B.E., Fellow, London, was elected Vice-President.

Legal Title of the Society

A decision was taken at an extraordinary general meeting of the Society on May 26 to shorten the title of the Society by deleting the words *and Auditors* and to modernise the form and content of the Objects Clause in the Memorandum of Association. The shortened title was duly registered and became effective on June 4.

The Council was advised that an exclusive right to new initial letters could not be acquired for many years and in all the circumstances it was not considered advisable to abandon the use of the letters F.S.A.A. and A.S.A.A. which are recognised at law and are derived from the original title (*The Society of Accountants and Auditors*) registered on December 31, 1885.

The Council urges those members who still describe themselves or their firms as *Incorporated Accountant(s) and Auditor(s)* to delete the last two words. The legal and authorised designation is *Incorporated Accountant*. It is a comprehensive designation and covers all branches of accountancy work.

Membership

The membership of the Society as at December 31, 1954, was 10,334. This represents a net increase of 356 in the membership since the corresponding date in 1953.

Articled Clerks and Bye-law Candidates

The recruitment of articled clerks and bye-law candidates during the past seven years was:—

	Articled Clerks	Bye-law Candidates	Total
1948	570	768	1,338
1949	538	771	1,309
1950	559	804	1,363
1951	532	665	1,197
1952	475	655	1,130
1953	575	1,005	1,580
1954	643	707	1,350

The introduction of new registration regulations for bye-law candidates in July, 1953, increased the recruitment figures for that year, but the statistics for 1954 are strictly comparable with those for 1952 and earlier years.

Examinations

Four hundred and ninety-four candidates completed the Final Examination during 1954. The results of the examinations are set out below:—

PRELIMINARY		
Sat	Passed	
417 139—33 per cent.		
INTERMEDIATE		
Sat	Passed	
1,499	667—45 per cent.	
FINAL		
Part I only		
Sat	Passed	
1,336	514—38 per cent.	
Part II only		
Sat	Passed	
605	400—66 per cent.	
Parts I and II at one sitting		
Sat	Passed	
210	52—25 per cent.	

Of the 210 candidates who sat for both parts of the Final Examination at one sitting in 1954, 92 failed both parts, but 32 passed Part I and 34 passed Part II.

Stamp-Martin Scholarships

The Council awarded the first Stamp-Martin Scholarship to Harold Walter Deane, A.S.A.A., who has entered upon a course of reading in the Honours School of Philosophy, Politics and Economics in the University of Oxford. The conditions governing the award of these Scholarships were published in ACCOUNTANCY for April, 1955, page 126, and May, page 196. Applications for the second scholarship should be lodged with the Secretary on or before June 30, 1955.

Examination Honours

The Gold Medal was awarded to John Desmond White, Bournemouth, and the Silver Medal to Michael Henry Wheaton, Port Talbot.

Deferment of National Service

During 1954 the Ministry of Labour and National Service amended the conditions governing deferment of national service for articled clerks and bye-law candidates.

The Stamp-Martin Chair and Research

The Council records with deep regret the death in July of Sir Henry Clay who was one of the academic electors to the Stamp-Martin Chair.

Fourteen Practice Notes and twelve Reprints were published during the year.

The Register of International Research in Accounting was published by the Oxford University Press in May. Further issues will be published at three yearly intervals.

A study is being made of International Comparisons in Local Government Finance, under the chairmanship of Mrs. Ursula Hicks. A letter asking for information and sources was sent to academic and administrative specialists interested in local finance in the United States of America, Canada, South Africa, Australia, New Zealand, the Netherlands, Belgium, West

Germany and Scandinavia. A good response resulted and members of the study group are reporting on the information available country by country. It is hoped to arrange these reports on a functional basis.

The manual on costing and management accounting for the footwear industry, which resulted from the work undertaken by the Research Committee and the Federated Associations of Boot and Shoe Manufacturers, has been sent to the printers and will shortly be published.

A group considering the effects of de-rating and re-rating on industrial costs has held a number of meetings and is continuing its work.

The joint committee appointed by the Council of the Society and the Council of the Royal Statistical Society with a representative of the Institute of Actuaries has continued work during the year and the proposed text on the *Accounting Application of Statistical Methods* should be ready for publication during 1955.

The Committee on the Measurement of Productive Efficiency has carried on its work during the year. Research is also continuing on a variety of other questions which concern both practising and industrial accountants.

Professor F. Sewell Bray delivered two public research lectures at the Hall on *Accounting Dynamics*, one in the Easter term and the other in the Michaelmas term. Both lectures were published in *Accounting Research* and reproduced in the Reprint Series.

Four open seminars for qualified accountants and senior students were held at the Hall on the following subjects: (1) Research in Accounting History: A Pioneer Field. (2) Dilemmas and Challenges in Modern Practice. (3) Legal Constraints on Accounting. (4) A Discussion on Accounting Dynamics. The first two seminars were addressed by Professor Mary E. Murphy, the third by Mr. T. W. South, and the fourth by Professor Bray.

In July and August four students' request seminars were organised. Two of these on *Auditing Theory* were addressed by Mr. E. H. Davison, and the remaining two on *Accounting Theory* by Mr. Harry Norris.

Professor Bray delivered a course of seven lectures for students on *The Elements of Accounting* in the Easter term and four lectures on *The Pure and Applied Theories of Accounting* in the Michaelmas term. He also lectured at Nottingham University on *Accounting Practice and the Trade Cycle*, at Birmingham University on *Accounting Theory*, and to the Chartered Accountants Students' Society in Edinburgh on *Auditing Theory*. At a meeting in Swansea, arranged by the District Society, Professor Bray took part in a discussion on *The Universities and the Professions* following an address by the Vice-Chancellor of the University of Wales.

The Professor received a number of visiting scholars at the Hall and was in frequent communication with research institutions, professional bodies and universities overseas. He was consulted by corres-

pondents in the United States of America, Australia, South Africa, India, Norway, Sweden, Italy, Germany and Japan, and by a number of newly qualified members of the profession in this country who wished to read for degrees and whom he assisted in placing in English universities. A small number of graduate members of the profession have now started to read for higher degrees in accounting subjects. At the close of the year there were 22 newly qualified members registered with the Professor as research students and reading under his direction.

During the year the Professor accepted an invitation from the British Institute of Management to act as Chairman of its Steering Committee concerned with the research project of a study of methods of interfirm comparisons. He has also formed a special group which will meet at the Hall for the study both conceptually and by application of accounting and financial relationships. This group is composed of five accountants, five applied economists and three members of the British Institute of Management. It is hoped that this group will eventually make available their findings on the subject of Accounting Ratios with a view to assisting the research project on interfirm comparisons.

The Professor has been externally consulted on a number of questions affecting educational policy and research.

Endorsement of Cheques

The Council considered the accounting and auditing implications of a private member's Bill sponsored by Mr. Graham Page, M.P., which sought to abolish the necessity to endorse cheques when paid into a bank for collection on behalf of a customer of that bank. The views of the Council were communicated to Mr. Graham Page and the Secretary's correspondence with him was published in the March, 1955, issue of ACCOUNTANCY.

The Companies Act, 1948

Many suggestions for the amendment of the Act have been received from the Committees of Branches and District Societies. A memorandum is now being drawn up for consideration of the Council with a view to its submission to the Board of Trade.

Branches and District Societies

The Council records its indebtedness to the Committees of Branches and District Societies for their good work, and urges every Incorporated Accountant to give full support to his local Society.

UNITED KINGDOM AND REPUBLIC OF IRELAND

The annual conference between representatives of Branches and District Societies and members of the Council was held in London on May 27. Other meetings between Presidents, Honorary Secretaries and officers of the Society were held on February 19, May 26, and November 24.

During the year some 450 meetings were arranged by Branches and District Societies

for members and students. In addition residential pre-examination courses were arranged by the Irish Branch, the Hull and Liverpool District Societies and the London Students' Society.

Upon the resignations of Mr. J. Hawthorne Paterson, Mr. D. Simon Jones, Mr. R. A. Hamilton and Mr. J. E. Spoors, the Honorary Secretaryships of the Scottish Branch and of the Swansea and S.W. Wales, North Staffordshire and Northern England District Societies were assumed by Mr. J. Battersby, Mr. H. K. Greaves, Mr. J. P. Elliott and Mr. J. S. Peffers, respectively.

SOUTH AFRICA

A summary of the report of the South African Branches is to be found below. The total membership of the three Branches at December 31 was 561; earlier in the year 83 members were transferred from the Northern Branch to the newly formed Central African Branch.

The Public Accountants and Auditors Board has had another busy year. In addition to the Society's nominee, Mr. A. R. Butcher, seven of the members of the present Board are Incorporated Accountants, including the Chairman, Mr. G. E. Noyce, and the Vice-Chairman, Mr. J. C. Macintosh.

A Research Committee has been established under the joint sponsorship of the South African Branches and the Joint Council of the South African Societies of Chartered Accountants. All five members of this Committee are Incorporated Accountants.

The Chairman of the Eastern Branch, Mr. Bernard Halsey, visited London in October and was entertained at a luncheon given in his honour at the Hall by the President and Past Presidents.

The Council records its congratulations to Mr. E. G. Moore and Mr. A. L. Norden on their election as President of the Transvaal Society of Accountants and President of the Natal Society of Accountants respectively. Congratulations are also extended to Mr. A. Dickson on his appointment in succession to Mr. E. G. Moore as Chairman of the South African Accountants' Societies General Examining Board.

CENTRAL AFRICA

The membership on December 31 of the Central African Branch, which was founded in 1943 with jurisdiction in the Federation of Rhodesia and Nyasaland, was 98 and there were 35 articled clerks on the Branch register.

Nine Incorporated Accountants serve on the Council of the Rhodesia Society of Accountants and the Council records its congratulations to Mr. C. R. Causton and Mr. H. B. Hone on their election as President and Vice-President respectively.

Overseas Accountancy Bodies

During October, the President and Mrs. Nelson visited the United States and Canada at the invitation of the American Institute of Accountants and the Canadian

Institute of Chartered Accountants. While in the United States the President attended the sixty-seventh annual meeting of the American Institute of Accountants in New York.

The President and Mrs. Nelson then travelled to Canada and had the pleasure of meeting members of the Canadian Institute of Chartered Accountants and members of the Society in Toronto and Montreal.

Professor Bray, accompanied by Mrs. Bray, represented the Society at the Accountants' Day of the Nederlands Instituut van Accountants in Amsterdam on October 9.

The Council records its warm thanks to the American Institute of Accountants, the Canadian Institute of Chartered Accountants, members of the Society in Canada and to the Nederlands Instituut van Accountants for the cordial welcome and hospitality extended to the Society's representatives.

Invitations were also extended to the Society by the New Zealand Society of Accountants and by the Institut der Wirtschaftsprüfer to conventions in Dunedin and Hanover and by the Philippine Institute of Accountants to its twenty-fifth anniversary celebrations in Manila. It was with regret that the Council found it impossible to accept these invitations.

Anniversaries of United Kingdom Accountancy Bodies

Two important anniversaries were commemorated during 1954. The Institute of Chartered Accountants of Scotland celebrated the hundredth anniversary of the grant of a Royal Charter to the Society of Accountants in Edinburgh, and the Association of Certified and Corporate Accountants celebrated the fiftieth anniversary of the incorporation of The London Association of Accountants.

The President and Mrs. Nelson, the Vice-President and Lady Yeabsley and the Secretary and Mrs. Craig had the pleasure and privilege of being present at both celebrations. The Society was also represented at the Scottish Institute's centenary celebrations which were held in Edinburgh in June, by Mr. Festus Moffat, the Chairman of the Scottish Branch, and at the Association's Jubilee celebrations in London in November by Mr. and Mrs. C. Percy Barrowcliff.

The Council records its gratitude to the Institute of Chartered Accountants of Scotland and to the Association of Certified and Corporate Accountants for the cordial welcome and hospitality extended to the Society's representatives.

Society Dinners

Two dinners were held at Incorporated Accountants' Hall during 1954. The Presidents and Honorary Secretaries of District Societies were entertained on May 25 when the principal guest was the Rt. Hon. Lord Justice Birkett. On November 3 the principal guests were the Rt. Hon. The Master of the Rolls and the Rt. Hon. Lord Justice Morris.

Honours, Decorations and Awards

The Council warmly congratulates the following Incorporated Accountants named in recent Honours lists: *C.B.E.*: Edward Cassleton Elliott, London. Group Captain Cuthbert Vincent Mears, R.A.F., Marlow. Harold Thomas Speirs, B.Sc., London. *O.B.E.*: John Herbert Drayson, London. Arthur George Mellor, B.Com., Beckenham. Henry William Povey, Kampala, Uganda. *M.B.E.*: James Butterworth, Wigan. Alastair MacDonald, Edinburgh. Robert William Porter, Cambridge.

Capel House (Medcalf) Trust

Reference was made in the last report to the most generous gift of Capel House, Enfield, made to the Society by Colonel S. A. Medcalf, O.B.E., T.D., D.L. Both Capel House and the endowment fund have been vested in five trustees appointed by Colonel Medcalf and the Society: two Incorporated Accountants (Mr. Bertram Nelson and Mr. H. W. Petherick) and three solicitors (Mr. W. Edmondson, Mr. J. M. A. Edmondson, and Mr. E. R. L. North). The Capel House deeds were formally presented by Colonel Medcalf at a luncheon at the Hall on June 22. The accounts of the trust are annexed to this report.

Management Accounting Course

A course on Management Accounting, which 154 members attended, was held at Balliol College, Oxford, from September 17 to 21. The course opened with a discussion between Sir Geoffrey Heyworth and Professor F. Sewell Bray on *Accounting Techniques as an Instrument of Management*. Papers were presented by Mr. D. W. Hooper, M.A., A.C.A., on *Mechanisation, Present and Future*; Mr. W. F. Harris, A.S.A.A., on *Statistics and the Accountant*; Mr. Geoffrey J. Mills, A.C.I.S., on *Incentives for the Clerical Worker*; Mr. G. S. Nelson, A.S.A.A., on *Financial Management*; Mr. D. Solomons, B.Com., A.C.A., on *Costs, Plans and Prices*.

These useful papers are reproduced in the Practice Notes series published by the Incorporated Accountants' Research Committee.

The Council records its gratitude to the Master and Fellows of Balliol for the facilities afforded to the Society, and to the lecturers and other speakers for their valuable contributions.

Register of Management and Industrial Consultants

At the request of the British Institute of Management further consideration has been given to the question whether it is appropriate for a member of the Society to have his name, or that of any firm or company of which he may be a partner or director, included in the Register of Management and Industrial Consultants maintained by the British Institute of Management.

As a result of discussions with the accountancy bodies, the British Institute of Management has undertaken to incorporate the following statement in all appropriate

documents which may be issued in connection with the Register:

"The Register does not include practising public accountants many of whom advise on management accounting and costing and some of whom have established special departments for this purpose. Nor does the Register include 'consulting cost accountants' who practise in this field. Companies and other enquirers are recommended in the first instance to consult with their own auditors when problems in this field are under consideration."

In all the circumstances the Council has decided that in the case of members of the Society who are not practising accountants but who are engaged in the business of management consultancy, no objection will be taken for the time being to the inclusion on the Register of Management and Industrial Consultants maintained by the British Institute of Management of the names of such members or of the firms or companies with which they are associated, provided that such members are not described as Incorporated Accountants or designated as such by the letters F.S.A.A. or A.S.A.A. on the Register or in any letter or document issued in connection with their consultancy business.

The Council desires to re-emphasise that an Incorporated Accountant is not permitted to advertise for, or solicit accountancy work and that in this and other respects a member may not do anything under the guise of a management consultancy business or other business that he is not permitted to do as an individual.

This statement replaces the statement made by the Council on October 18, 1951, which was published in the December, 1951, issue of ACCOUNTANCY and reproduced in the annual report for 1951.

Professional Fees

Members are reminded that the scale of fees authorised by H.M. Treasury for payment to practising accountants for work done for Government departments was revised in December, 1952. A copy of the revised scale can be obtained on application to the Secretary.

Misuse of the Society's Designation

On July 6 in the Chancery Division of the High Court, Mr. Justice Vaisey granted an injunction restraining Herbert Charles Vincent of Acton from describing himself as an Incorporated Accountant. Mr. Vincent had never been a member of the Society.

Institute of Taxation

In May the Council lodged a petition with the Privy Council Office opposing the application of the Institute of Taxation for the grant of a Royal Charter.

Accountants' Joint Parliamentary Committee

The Accountants' Joint Parliamentary Committee has continued its work of watching all parliamentary matters relating to the qualification and status of accountants and auditors. During the year it has

been successful in maintaining the adoption of a form of audit clause which in effect confines the choice of professional auditor to members of the accountancy bodies represented on the joint committee.

For some time past the joint committee has pressed the Ministry of Housing and Local Government to allow joint boards composed of local authorities to have the right of choosing either professional or district audit. The issue was recently brought before a Select Committee of the House of Commons in connection with the Kent Water Bill. The decision was in favour of the joint committee's contention and if, as is hoped, the House of Lords endorses that decision, the principle for which the committee has been contending will be established by Parliament.

Disciplinary Committee

During the year A. McKeown, Belfast, and G. T. Montague, Porthcawl, were excluded from membership under the provisions of Article 35, and one member was censured under the provisions of Article 32.

Library

The library facilities are continually being extended, and each year more members are taking advantage of them.

It is particularly desired to bring to the notice of members the announcement of a Gift Section which was published in the March, 1955, issue of ACCOUNTANCY. This section has been formed as part of the reference library and it is hoped that members of the Society and others wishing to ensure that their own books shall be carefully preserved to the general benefit of the profession will present books to this section. A permanent record of the names of donors, together with the titles of the works presented, will be displayed in the gift section, and the name of the donor will be inscribed in each volume.

Members who wish to present rare or up-to-date books are invited to write to the Secretary in the first instance, advising him of the titles of the books.

Appointments Department

The number of vacancies of all types notified by employers showed an increase of approximately 25 per cent. over the number notified during 1953. Increasing use is being made of this service, and those concerned—employers and employees—are invited to communicate with the Appointments Officer.

Obituary

The Council records with deep regret the death of 76 members during 1954. The obituary list includes the names of: Alfred William Horton, Honorary Secretary, South Wales and Monmouthshire District Society 1912-1918 and President, 1921-1922. Thomas Holme Nicholson, O.B.E., a member of the Council, Chairman, London District Society, 1948. Alfred James Palmer, Chairman, Portsmouth Branch of the South of England District Society,

1945-1954. Thomas Harold Platts, a former member of the Council, and a former President of Birmingham District Society. William Herbert Rhodes, President, Leicestershire and Northamptonshire District Society 1951-1953. Natveral Jekishandas Shah, President, Bombay and District Society, 1946-1948.

Mr. Nicholson, who was appointed an Officer of the Order of the British Empire in 1952, had been a member of the Society for thirty-five years, and a member of the Council since 1949. He was Chairman of the Library Committee and a member of other Council Committees. He was Chairman of the London and District Society for the year 1948-1949, and remained an active member of the Committee until his death on December 3.

Mr. Platts was admitted to membership of the Society in 1917. He was elected a member of the Council in May, 1940, and he served on it for eleven years until his retirement in 1951. A keen supporter of the Birmingham and District Society, he held the offices of Honorary Secretary from 1924 to 1929, Vice-President from 1935 to 1938 and President from 1938 to 1945. After his presidency Mr. Platts was again elected a Vice-President and held this office until his death on November 30.

Constitution of the Council

The constitution of the Council and the nomination procedure have been reviewed in consultation with the Committees of Branches and District Societies: the recommendations arrived at are summarised below:-

- (1) The Council should in future consist of not more than 36 elected members together with the Past Presidents of the Society who are willing to act. In present circumstances this would give a total Council membership of 43.
- (2) Whilst it is desirable that the Council should include membership drawn from as many Branches and Districts as possible, the fundamental principle should continue to be that the Society requires the services of the best men available, irrespective of geographical considerations.
- (3) It is proposed, with the concurrence of the Council of the Scottish Branch, to modify the agreement entered into in 1899 (at the time of amalgamation of the Scottish Institute of Accountants) whereby that Branch had the right itself to elect two members of the Council; in future at least one of the members elected to the Council in the ordinary way would be drawn from the Scottish Branch.
- (4) The right of the Council to make an appointment to fill a casual vacancy should be retained (the member so appointed continuing, of course, to offer himself for formal election at the next following annual general meeting.)
- (5) The right given in Article 55 to any six members to nominate an Incor-

porated Accountant for election to the Council should be retained.

- (6) It should be understood that normally a Council member (not being a Past President of the Society) would not offer himself for re-election after reaching the age of 70 years.

The Council has constituted a Selection Advisory Committee consisting of the President (as Chairman), the Vice-President, the immediate Past President and his predecessor in that office, and three additional members to be appointed annually by the Council. This Committee is charged with the responsibility of considering and reporting to the Council on the annual retirements and on suggestions made from time to time by Branches and District Societies.

Special resolutions to give effect to the proposals in paragraphs (1) and (3) above will be submitted for consideration by members at an extraordinary general meeting to be held after the annual general meeting on May 17, 1955.

Council

The Council records with regret that Mr. C. A. G. Hewson, London, and Mr. W. H. Fox, Northampton, have resigned from the Council. Mr. Hewson had served on the Council for eleven years and Mr. Fox for four years. The Council records its warm thanks to these two members for their services to the Society.

In accordance with the provisions of Article 48 the Council appointed Mr. James Stanley Heaton, Fellow, Bradford, to fill the vacancy on the Council caused by the death of Mr. T. H. Nicholson and Mr. Frank Edward Price, Fellow, London and Mr. Spencer Laurence Pleasance, Fellow, London, to fill the vacancies caused by the resignations of Mr. C. A. G. Hewson and Mr. W. H. Fox. Mr. Heaton, Mr. Price and Mr. Pleasance will offer themselves for formal election at the annual general meeting in May, 1955.

The following members retire from the Council under the provisions of Article 49 and, being eligible, offer themselves for re-election: Edward Baldry, Richard Wilson Bartlett, Charles Victor Best, Frank Sewell Bray, Andrew Brodie, Leonard Cecil Hawkins, Bertram Nelson, William George Ainge Russell, Sir Richard Ernest Yeabsley.

Mr. M. J. Faulks, London and Mr. Alexander Hannah, Liverpool, also retire from the Council under the provisions of Article 49, but do not offer themselves for re-election. The Council will greatly miss the services of these two members and desires to place on record its deep appreciation of their work for the Society. Mr. Faulks has been a member of the Council for 19 years and Mr. Hannah for 18 years.

The Council nominates Mr. Harold Leslie Layton, Fellow, London, and Mr. Albert Blackburn, Fellow, Newport, Mon., for election to fill these two vacancies.

Auditors

Mr. Stanley I. Wallis, Fellow, and Mr.

James A. Allen, Fellow, have indicated their willingness to continue in office as Auditors.

SUMMARY OF REPORT OF SOUTH AFRICAN BRANCHES

Articled Clerks

One hundred and ten Articles of Clerkship were registered during the year. The number of articled clerks on the Branch Registers at December 31, 1954, was: Western 23, Northern 315, Eastern 55; total 393.

Public Accountants' and Auditors' Act

At December 31, 1954, the South African Public Accountants' and Auditors' Board had registered approximately 1,600 persons as accountants and auditors.

The Society's nominee on the Board for 1954 was Mr. Alan R. Butcher with Mr. R. E. Grieveson, of Johannesburg, as alternate. The same nominations have been made for 1955. Seven other members of the Board—notably the Chairman, Mr. G. E. Noyce, and the Vice-Chairman, Mr. J. C. Macintosh, are members of the Society. The Society is represented on each of the four local Committees of the Board.

The Board has had another busy year. It was anticipated that with the publication of various Codes and Regulations the work of the Board would tend to decrease. This has, however, not materialised and a growing multitude of routine matters has had the attention of the Board and its committees during the year.

Much consideration has been given to the amendments in both the Act and Regulations which experience has shown to be necessary, and it is hoped that these amendments will soon have the sanction of Parliament.

The Board's report on the investigations with respect to Section 30 has been published for general information, but the Minister has not yet indicated what action he intends to take.

An increasing amount of time has been spent by the Disciplinary Committee of the Board on matters reported to it for investigation.

Joint Council Research Committee

In collaboration with the Joint Council of the Societies of Chartered Accountants, South Africa, a Research Committee has again set up with the object of considering matters of interest to the profession and publishing its views thereon.

Mr. W. D. Bramwell and Mr. A. M. Rosholt represent the Society on this Committee, and the remaining members, Mr. K. Lamont Smith, Mr. G. W. Cox and Professor B. J. S. Wimble, are members of the Society.

Members from Overseas

The Honorary Secretaries of the three branches are always glad to meet members newly arrived from overseas and to assist them in any way possible in regard to any professional matters.

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APPOINTMENTS VACANT

THE SOCIETY'S APPOINTMENTS REGISTER
Employers who have vacancies for Incorporated Accountants on their staffs and also members seeking new appointments are invited to make use of the facilities provided by the Society's Appointments Register. No fees are payable. All enquiries should be addressed to the Appointments Officer, Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, W.C.2. Tel. Temple Bar 8822.

A COMMERCIAL organisation has a vacancy on its staff in East Africa for an Accountant (preferably qualified) with office management experience. Applicants should have had several years on accounting work and be capable of taking accounts to the final preparation of the balance sheet and profit and loss account. Age limit 32. Commencing salary not less than £1,050 per annum plus local allowances. Tours in East Africa 3-4 years, each followed by U.K. leave on full pay. Free first-class passages. Pension Fund. Write giving full details of experience and qualifications to Box No. 8611, c/o CHARLES BARKER & SONS LTD., 31 Budge Row, London, E.C.4.

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